The Manitoba Hydro-Electric Board

55th Annual Report

for the year ended March 31, 2006

106-07099/

55th Annual Report

The Manitoba Hydro-Electric Board

for the year ended March 31, 2006

Corporate Head Office
820 Taylor Avenue
Winnipeg, Manitoba, Canada

Mailing address:
PO Box 815
Station Main
Winnipeg, Manitoba
R3C 2P4

Internet sites (corporate and subsidiaries):
Manitoba Hydro: www.hydro.mb.ca
Manitoba Hydro International: www.mhi.mb.ca
Meridium Power Inc.: www.meridiumpower.ca
Manitoba HVDC Research Centre: www.hvdc.ca

Telephone: 204.474.3311
E-mail: publicaffairs@hydro.mb.ca

Letter of Transmittal

July 31, 2006

Honourable David Chomiak
Minister Charged with the Administration of The Manitoba Hydro Act
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I have the honour of presenting the 55th Annual Report of The Manitoba Hydro-Electric Board, together with the financial statements, for the fiscal year ended March 31, 2006.

Respectfully submitted,

Victor H. Schroeder, QC
Chairman, The Manitoba Hydro-Electric Board

Contents

4 Corporate Profile
5 Vision, Mission, and Goals
6 Highlights
10 Chairman's Message
12 President and Chief Executive Officer's Message

YEAR IN REVIEW

16 Using Energy Wisely
24 Exceptional Customer Service
28 Power for Generations
31 Exporting Electricity and Enhancing Reliability
35 Strengthening Aboriginal Relationships
38 Protecting the Environment
40 Our Employees: Skilled, Innovative and Diverse
42 Being an Outstanding Corporate Citizen
46 Subsidiaries
47 Corporate Governance

FINANCIAL REVIEW

51 Management Discussion and Analysis
65 Management Report
66 Auditors' Report
67 Consolidated Financial Statements
84 Consolidated Financial Statistics—A 10-year Overview
85 Operating Statistics—A 10-year Overview

86 Major Electric and Gas Facilities Map
87 Source of Electrical Energy Generated and Imported
87 Generating Stations and Capabilities
88 Members of the Board
89 Manitoba Hydro Senior Officers
90 Glossary

Vous trouverez le rapport en français sur le site Web de Manitoba Hydro à l'adresse suivante : www.hydro.mb.ca

Corporate Profile

Manitoba Hydro linemen install a new 69 kV distribution centre at Winnipeg's North End Water Pollution Control Centre.

CORPORATE PROFILE

Manitoba Hydro is a provincial Crown Corporation, providing electric energy to 510 000 customers throughout the province and natural gas service to 258 000 customers in various communities. The Corporation also exports electricity to over 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Manitoba Hydro offers its customers a wide range of energy services, either directly or through its subsidiaries. In addition to providing electricity and natural gas services, the Corporation aggressively promotes energy conservation and savings through its many Power Smart* programs. The utility is also known nationally for its quality of service and reliability and is the only Canadian utility that participates as a member of an American Regional Transmission Organization. A respected corporate citizen, Manitoba Hydro is well-known for its support for community events in the province and its employee volunteerism.

Nearly all of Manitoba Hydro's electricity is generated from self-renewing waterpower. On average, about 30 billion kilowatt-hours of electricity are generated annually, with 98 per cent of the total produced from 14 hydroelectric generating stations, primarily on the Winnipeg, Saskatchewan, and Nelson rivers. About two per cent of the province's energy needs are produced from two thermal generating stations and four remote diesel generating stations.

Manitoba Hydro also delivers natural gas to nearly 100 communities in the province, using approximately 8 700 kilometres of pipelines. On average, about 2.1 billion cubic metres of natural gas are delivered through the system annually.

The Corporation's capital assets in service at original cost exceed $11 billion, making Manitoba Hydro one of the largest energy utilities in Canada. The governance of the Corporation is through The Manitoba Hydro-Electric Board, whose members are appointed by the Lieutenant-Governor in Council.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.

VISION

To be the best utility in North America with respect to safety, rates, reliability, customer satisfaction, and environmental management, and to always be considerate of the needs of customers, employees, and stakeholders.

MISSION

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply, and end-use of energy.

GOALS

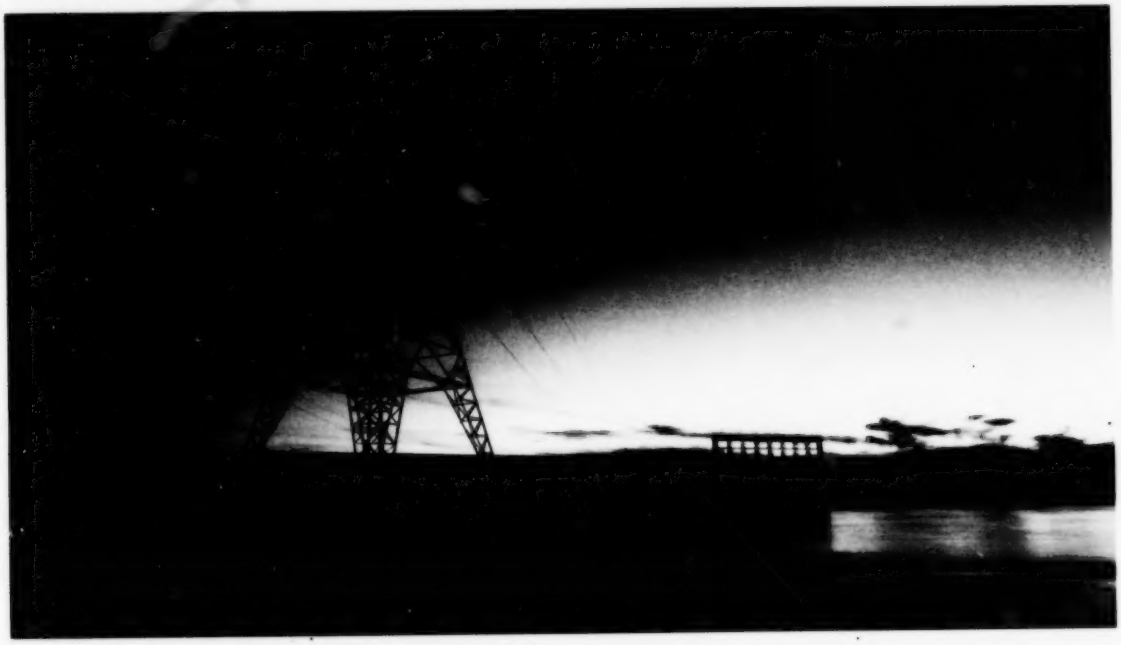
- Continuously improve safety in the work environment.
- Provide customers with exceptional value (rates, service, public safety, reliability, and power quality).
- Be a leader in strengthening working relationships with Aboriginal Peoples.
- Improve corporate financial strength.
- Maximize export power net revenues.
- Have highly skilled, effective, innovative employees and a diverse workforce that reflects the demographics of Manitoba.
- Be proactive in protecting the environment and the leading utility in promoting sustainable energy supply and service.
- Be an outstanding corporate citizen.
- Proactively support agencies responsible for business development in Manitoba.
- Be a leader in implementing cost-effective energy conservation and alternative energy programs.

Highlights

Manitoba Hydro President & CEO Bob Brennan unveils the final design for the Corporation's new head office building in downtown Winnipeg in July 2005.

Highlights

- **Manitoba Hydro achieved a record net income at fiscal year end of $415 million, the result of strong hydroelectric production from above-average water flow conditions and record energy exports. The utility's previous net income record of $270 million occurred in 2001. Manitoba Hydro was also distinguished this year as Canada's largest exporter of electricity to the United States, accounting for 50 per cent of the nation's exports to its southern neighbours.**



Manitoba Hydro's 1 220 megawatt Kettle Generating Station on the Nelson River.

- Manitoba Hydro introduced several new Power Smart programs to its energy efficiency roster, adding to the extensive selection of options for customers looking to maximize their electricity and natural gas savings.

- The Nisichawayasihk Cree Nation (NCN) and Manitoba Hydro announced a finalized Project Development Agreement (PDA) for the Wuskwatim Generating Station and Transmission Line Project. The PDA is now subject to ratification by NCN members in a community vote that will take place in summer 2006.

- Progress on the Corporation's signature Downtown Office Project in Winnipeg continued with several important construction milestones achieved. Scheduled for completion in late 2007, the 22-storey building will occupy an entire city block on the south side of Portage Avenue between Edmonton and Carlton Streets.

- The last of 63 wind turbines were erected at the St. Leon Wind Farm - the first of its kind in Manitoba and among the largest in Canada. Manitoba Hydro will purchase the entire output of the wind farm from AirSource Power under the terms of the 25-year Power Purchase Agreement.

Highlights

Consolidated Financial Results

	Electricity		Natural Gas		Total	
	2006	2005	2006	2005	2006	2005
			millions of dollars			
Revenue						
Manitoba	1 001	954	517	509	1 518	1 463
Extraprovincial	881	554	–	–	881	554
	1 882	1 508	517	509	2 399	2 017
Expenses	1 455	1 363	113	115	1 568	1 478
Cost of gas sold	–	–	397	384	397	384
Corporate allocation	7	7	12	12	19	19
	1 462	1 370	522	511	1 984	1 881
Net income (loss)	420	138	(5)	(2)	415	136
Retained earnings	1 265	845	20	25	1 285	870

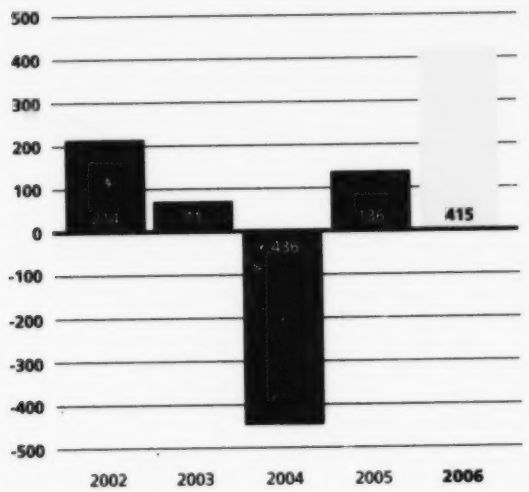
Operating Results

Electrical operations	2006	2005	Increase (Decrease)
		billions of kilowatt-hours	
Sales			
Manitoba sales	19.9	19.8	0.1
Extraprovincial sales	13.8	9.6	4.2
		thousands of kilowatt-hours	
System supply			
Generation	37.6	31.5	6.1
Imports	0.2	1.3	(1.1)
		thousands of kilowatts	
Manitoba peak load	4 054	4 169	(115)

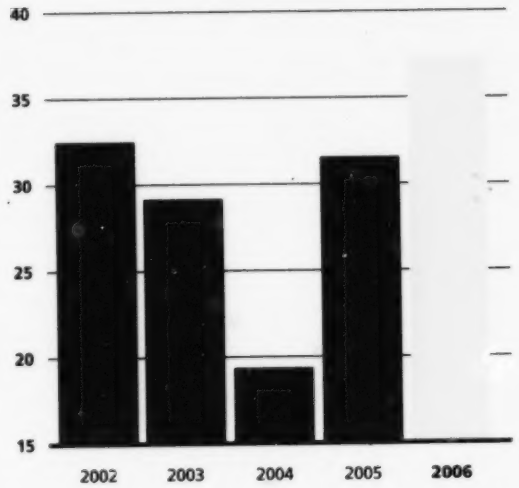
Natural gas deliveries		*millions of cubic metres*	
Residential sales	579	681	(102)
Commercial and industrial sales	803	917	(114)
	1 382	1 598	(216)
Transportation service	598	559	39
	1 980	2 157	(177)

Highlights

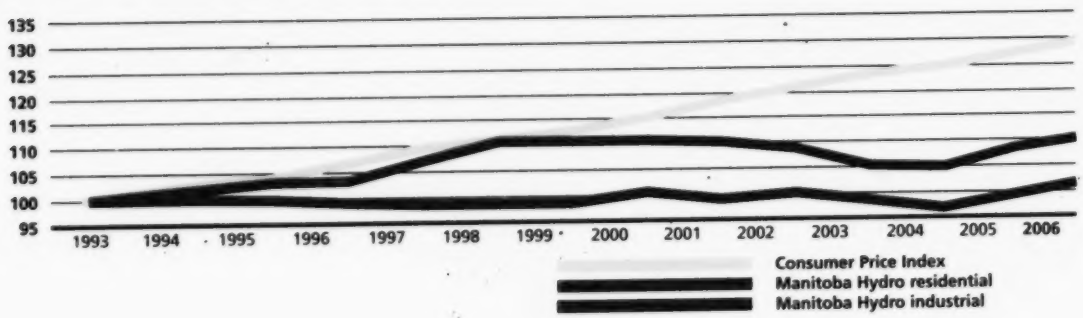
Net Income
millions of dollars



Total Generation
billions of kWh



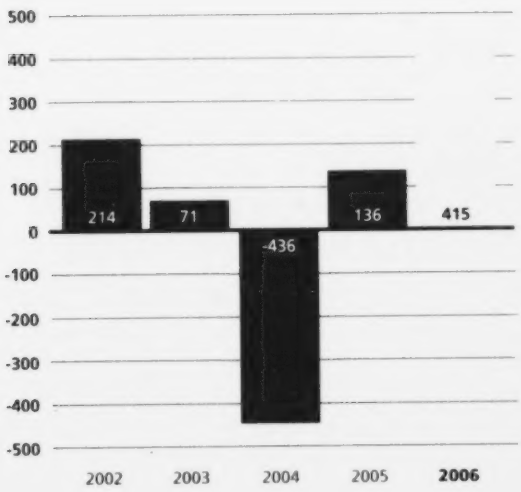
Annual Electricity Rate Changes
(1992 = 100)



Highlights

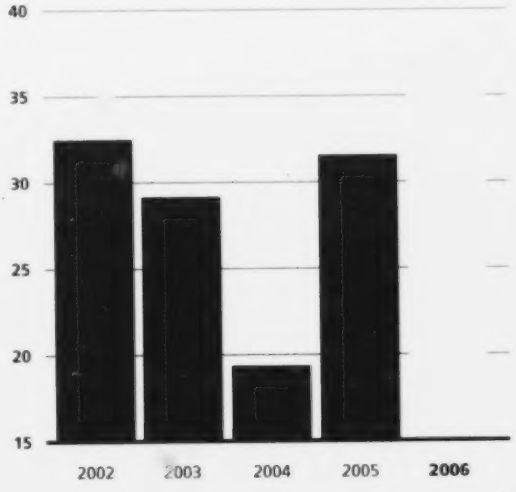
Net Income

millions of dollars



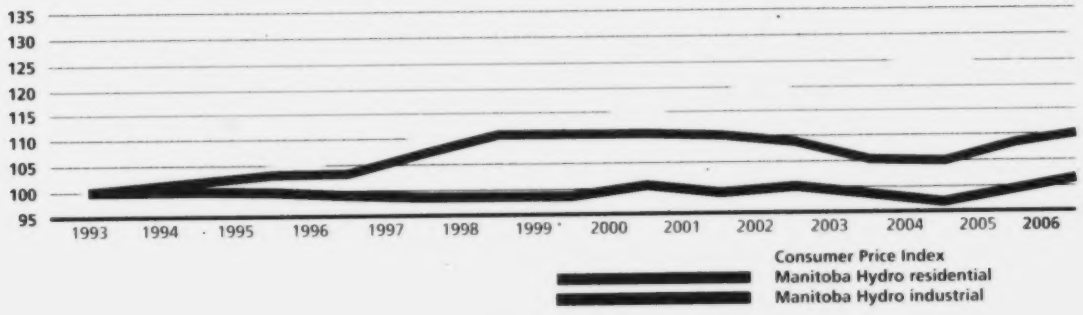
Total Generation

billions of kWh



Annual Electricity Rate Changes

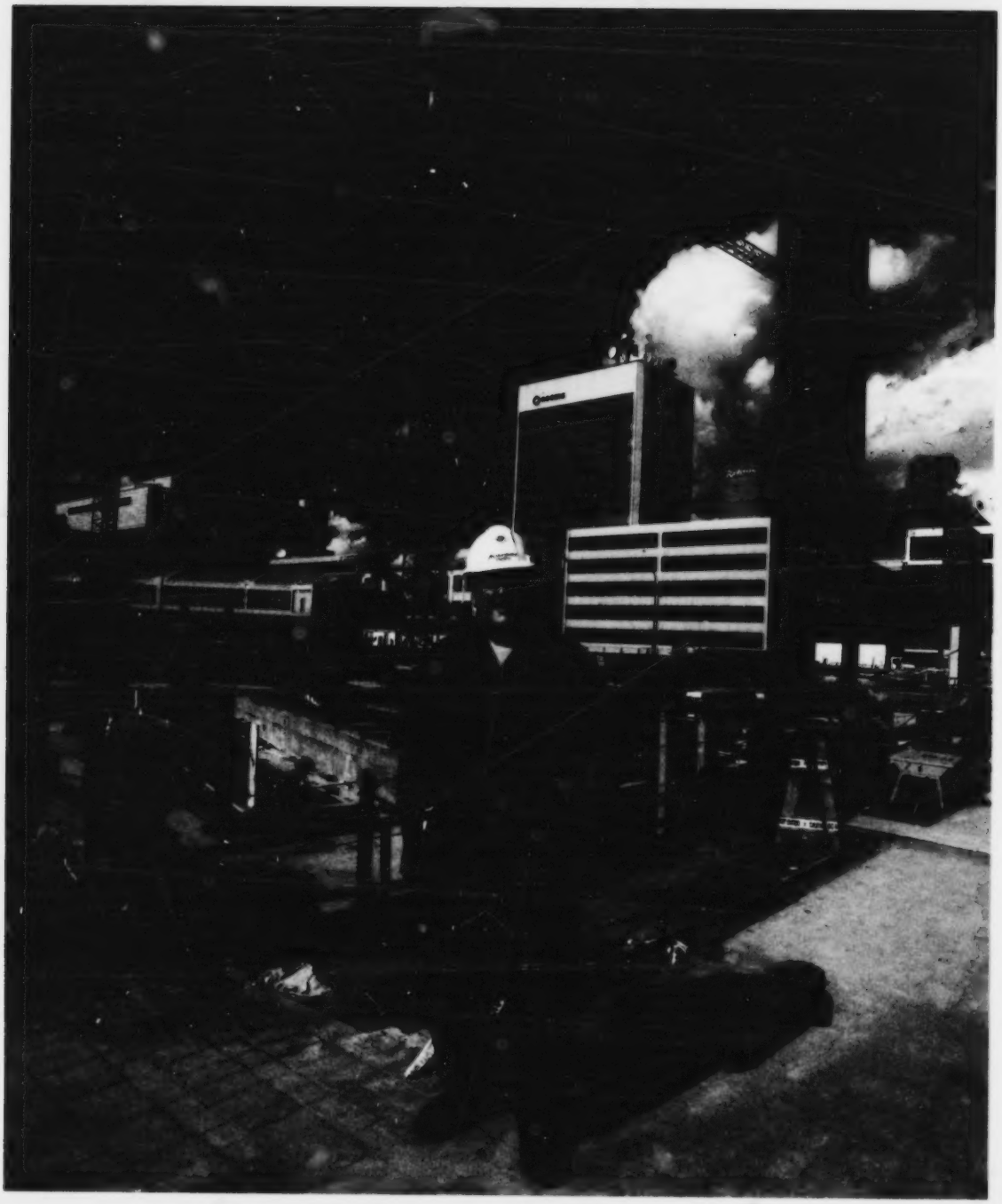
(1992 = 100)



Message

Chairman

Victor H. Schroeder, QC



It was an historic year for Manitoba Hydro in terms of production of electricity and net revenues. The Corporation is to be congratulated on this achievement.

Manitoba Hydro remains a critical component of the economy of Manitoba and through the appropriate and timely development of the province's hydroelectric resources, contributes to the economic well-being of Manitoba, while maintaining low energy rates for commercial, industrial, and residential users.

Progress continued in 2005-06 on the agreement to develop the Wuskwatim Generating Station in partnership with the Nisichawayasihk Cree Nation (NCN) at Nelson House. A Project Development Agreement was completed by year end and a community vote on the proposal is upcoming.

This partnership is unique in the history of hydroelectric development in Canada and it will act as a guide for future energy development in the province. The early involvement of the NCN community and their input in design, traditional wisdom and Cree knowledge, and many other matters has certainly added to the credibility of the partnership, along with the high degree of ongoing community education and participation.

The Board was pleased to see the continued strong emphasis during the year on the enhancement of the Corporation's Power Smart programs. New programs for residential and business customers were introduced, encouraging energy efficiency through advice, financial and merchandise incentives, as well as a popular loan program. Manitoba Hydro remains a leader in energy efficiency programs in Canada.

Work was completed during the year on the privately-developed St. Leon Wind Farm, one of the largest wind energy producers in Canada. Manitoba Hydro has a 25-year power purchase agreement with the owners and is looking forward to gaining experience in incorporating wind power into the predominantly hydroelectric system in Manitoba.

In other areas of environmentally-friendly energy development, Manitoba Hydro became the first fleet operation in Manitoba to utilize biodiesel fuel from made-in-Manitoba sources. The fuel is supplied through two of the Corporation's refueling facilities in Winnipeg. In both generating electricity and in utilizing energy in its own operations, the Corporation continues to explore new sources of generation and alternative fuels and technologies.

I was pleased to note throughout the year the number of awards accepted by Manitoba Hydro, several for energy efficiency programs but also for other projects and technical achievements, as noted in the pages of this report. This outside recognition speaks well for the organization, its employees, and leadership.

The Corporation has made great strides in its relationship with Aboriginal communities in Manitoba, some of which were directly impacted by hydroelectric development in the 1960s and 1970s. In addition to the unique partnership arrangement with NCN for the development of the Wuskwatim hydroelectric facility, Manitoba Hydro has reached out to the Aboriginal community with enhanced training and employment programs, targeted purchasing opportunities, cultural awareness training and many other efforts to enhance the relationship between the Corporation and Aboriginals.

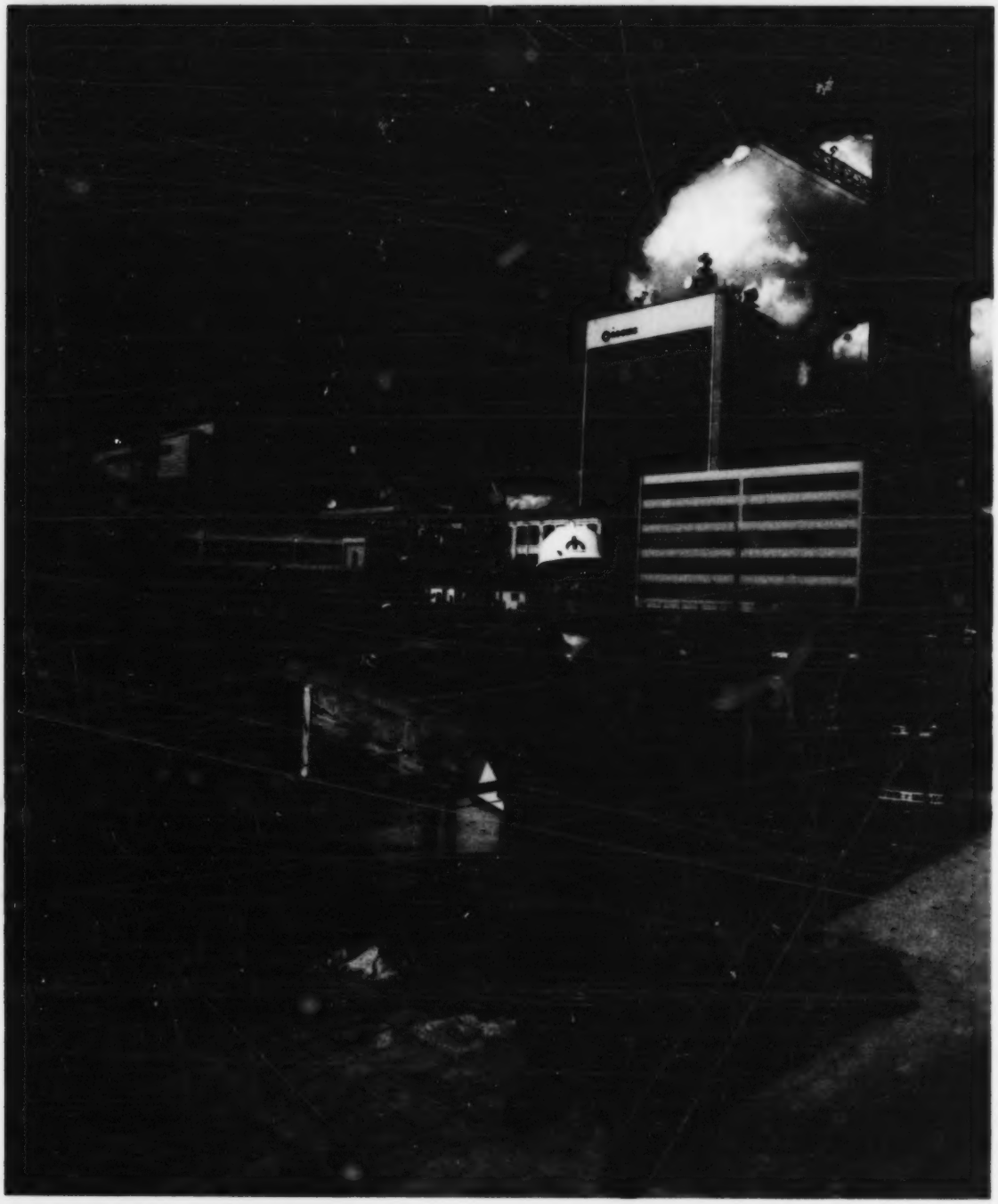
The Board would like to thank Manitoba Hydro employees for their service in 2005-06 and for their ongoing efforts to supply reliable low-cost energy to Manitobans and to plan for the future electricity and natural gas needs of the Province.

Victor H. Schroeder, QC
Chairman, The Manitoba Hydro-Electric Board

Message

President and Chief Executive Officer

R.B. Brennan, FCA



The past year was a record-setting one for Manitoba Hydro with respect to electricity generation, export sales of electricity, and net revenues. While these achievements were directly linked to exceptional water conditions in the province, I would also like to acknowledge the efforts of all of our employees in maximizing the performance of our electric and gas systems and facilities, allowing the Corporation to record the performance it did within the last year.

Export sales of 14 million megawatt-hours of electricity, worth $881 million, made Manitoba Hydro the largest Canadian exporter of electricity during the year. The previous record for exports was established in the 2001-02 fiscal year with revenues of $588 million.

Total generation was 38 million megawatt-hours, up 10 per cent from the previous record of 34 million megawatt-hours set in 1997-98. Net revenues for the year reached $415 million, up substantially from the previous record of $270 million in 2000-01.

These revenues are being used to reduce the amount of borrowing required to finance Manitoba Hydro's extensive capital spending program, which is necessary to ensure ongoing reliability standards and to meet growth in customer requirements. In turn, this reduction in debt will help keep future energy rates lower than otherwise would be the case. Manitobans continue to enjoy electricity rates that are consistently among the lowest on the continent.

Success, of course, is not measured solely in production figures or financial performance. It also consists of the Corporation's contributions to the community and in helping our customers better manage their energy usage - and subsequently their energy costs - in the future.

I am very pleased in this regard by the continued progress in the Corporation's Power Smart programs and the favourable response to these programs by Manitobans. There are now 23 Power Smart programs available to assist residential, commercial, agricultural and industrial customers in improving energy performance - saving money for them and improving our environment.

New this year were Power Smart programs for residential and commercial natural gas customers, with incentives for adding insulation and for high efficiency furnaces and boilers. Manitobans were enthusiastic adopters of improved lighting technologies, including compact fluorescent light bulbs and light emitting diode (LED) lights, that consume an impressive 97 per cent less energy than similar incandescent bulbs.

Manitobans also continue to be leaders in adopting energy saving geothermal heat pump systems, with 745 installations in 2005-06. During the past year, Manitoba Hydro provided $2 million in Residential Earth Power loans to assist customers in financing these systems. Manitoba leads the country in the per capita installation of geothermal heating and cooling systems.

For commercial and industrial customers, Manitoba Hydro continues to provide expert advice and incentives to improve energy efficiency. For example, Manitoba Hydro partnered with Boeing Canada and Air Liquide Canada to upgrade the nitrogen generation system at Boeing's Winnipeg plant, resulting in a reduction in electricity costs of 84 per cent for this process.

Manitoba Hydro's 5 600 employees live and work throughout Manitoba and make a significant contribution to their communities as volunteers and leaders in community activities. The Corporation tries to actively contribute to Manitoba communities as well, by sponsoring such events as the Power Smart Manitoba Winter Games.

President and Chief Executive Officer's Message

Held in Beausejour in March 2006, the Games attracted over 3 500 participants from all regions of the province and was a memorable event for competitors, coaches and volunteers alike.

The Corporation has a number of significant undertakings in progress, including the development of a new hydroelectric generating station in northern Manitoba, and the construction of a new signature head office building in downtown Winnipeg.

In March 2006, Manitoba Hydro and Nisichawayasihk Cree Nation (NCN) announced the finalization of the Project Development Agreement to develop the 200 megawatt Wuskwatim Generating Station on the Burntwood River. If a community referendum approves of the agreement, the new hydroelectric station would be developed as a partnership between the Corporation and NCN. Construction on an access road to the site could get under way in the summer of 2006 if the project is approved and all necessary permits and licenses are received.

The final design for Manitoba Hydro's proposed new head office building was introduced in July 2005. The new facility will be a state-of-the-art energy efficient building, targeting a 60 per cent energy saving compared to conventional offices. It will showcase many energy saving materials, systems, and technologies that can be adopted by Manitoba companies in new construction. In addition to providing a healthy, productive workplace for about 2 000 Hydro employees, the new facility will contribute to the continuing revitalization of downtown Winnipeg when completed in 2007.

Manitoba Hydro continues to make progress in its goal of strengthening its relationship with Aboriginal peoples in Manitoba. One expression of this commitment is the employment of people of Aboriginal ancestry.

At year's end, Aboriginal employment at Manitoba Hydro was 11.5 per cent of the total staff population, and 34.2 per cent of the northern staff population. In addition, I am proud of the many agreements that have been reached with Aboriginal communities affected by past hydroelectric developments.

The Corporation continues to place a priority on safety and improving both employee and public safety. Internal programs are aimed at analyzing and improving behaviours that can cause accidents or unsafe work practices, while information programs are aimed at the public reminding them of the safe way to use electricity and natural gas.

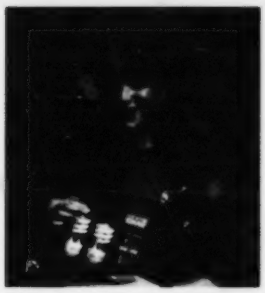
I thank Chairman Victor Schroeder, his colleagues on the Board, and the Board's various sub-committees for their advice and guidance during the year and for the commitment shown by them in meeting their responsibilities as Board members. I also thank all employees of Manitoba Hydro for their efforts in making Manitoba Hydro the company I am so proud of.

R.B. Brennan, FCA
President & Chief Executive Officer

Manitoba Hydro's 165 megawatt Seven Sisters Generating Station on the Winnipeg River.

Year in Review

Using Energy Wisely



The new Home Insulation Program for natural gas customers and the existing Compact Fluorescent Lighting Program are just two of the many Power Smart programs available to residential customers.

Since its implementation in 1991, the utility has promoted Power Smart aggressively - creating customer awareness of the various programs available and emphasizing the benefits of using energy wisely. A total of 23 programs are now offered to residential, commercial, and industrial customers alike. Power Smart initiatives have also helped the Province of Manitoba meet its Kyoto Protocol targets.

Power Smart programs grow

Throughout the fiscal year, Manitoba Hydro customers continued to show an interest in all things Power Smart. A number of new programs were added to the roster and many of the existing initiatives continued, such as the Earth Power Program and Compact Fluorescent Lighting Program.

New to the Power Smart portfolio this year were the Power Smart LED Holiday Lighting Program, the Furnace and Boiler Replacement Program, and the Home Insulation Program - the first of its kind aimed at the natural gas market.

In time for the 2005 holiday season, Manitoba Hydro provided free light emitting diode (LED) lighting to 156 eligible municipalities in exchange for less energy efficient incandescent holiday lighting. The Power Smart LED Holiday Lighting Program provided over 13 000 strings of LED holiday lights to the municipalities. At a savings of about 170 watts per string, over one gigawatt-hour of energy savings was achieved province-wide - enough energy to power 38 electrically-heated homes.

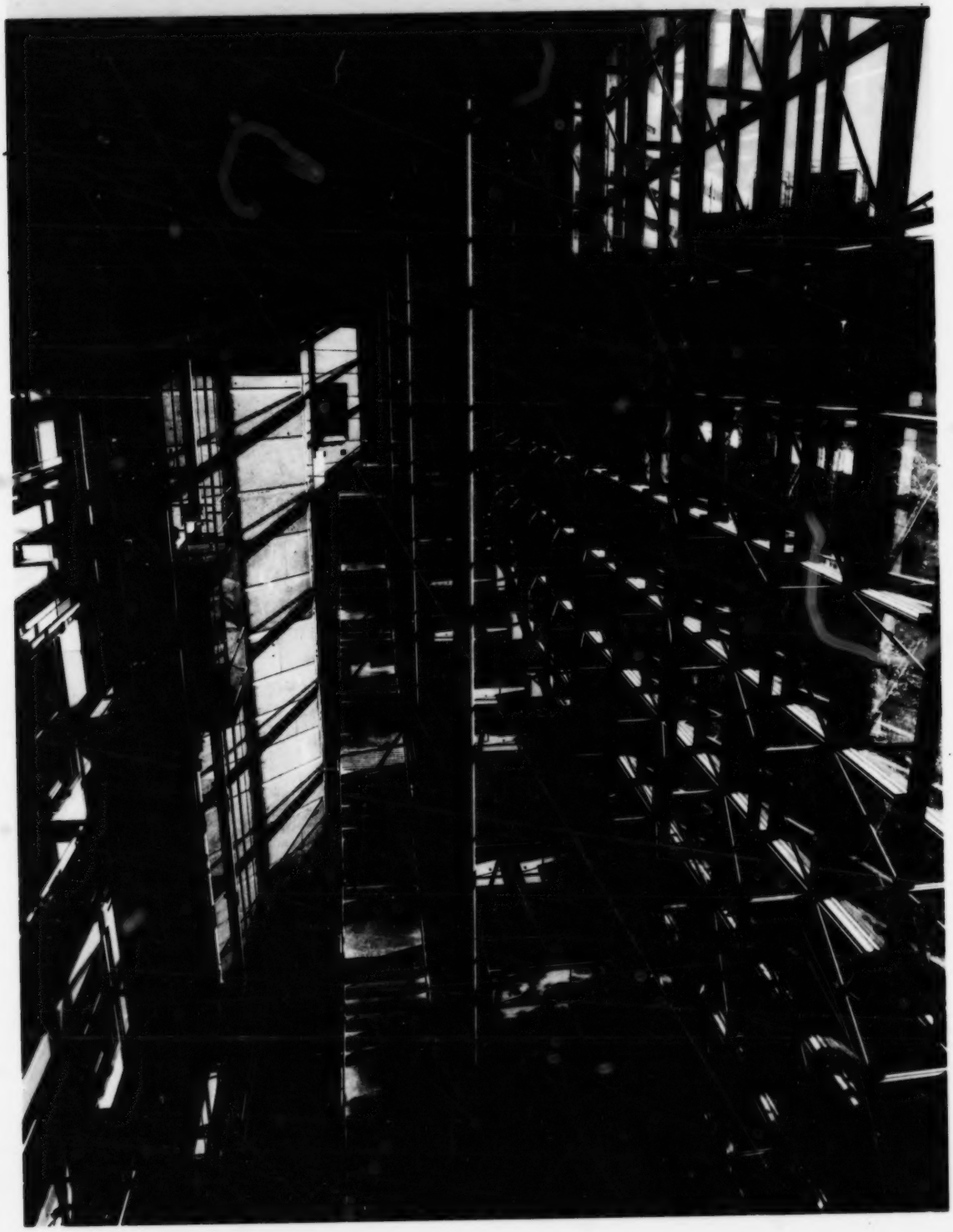
While producing an even, coloured light, LEDs consume approximately 97 per cent less energy than their incandescent counterparts. The new technology features a 20-year life expectancy, potentially eliminating at least 20 years of changing bulbs and purchasing replacements.

Also launched in November, the Home Insulation Program for natural gas users is a cousin to the existing program for electrical customers. The province's natural gas customers can now enjoy the benefits of a financial incentive to improve insulation levels in their homes. The program offers rebates, expected to average $500, on the cost of insulation materials and also provides specific information to customers on the best ways to insulate their homes.

The Furnace and Boiler Replacement Program is a partnership between Manitoba Hydro and Natural Resources Canada that promotes Energy Star® qualified furnaces and boilers. The program offers rebates of up to $245 to homeowners who replace their older standard or mid-efficiency furnaces and boilers with new Energy Star® high efficiency models.

Using Energy Wisely

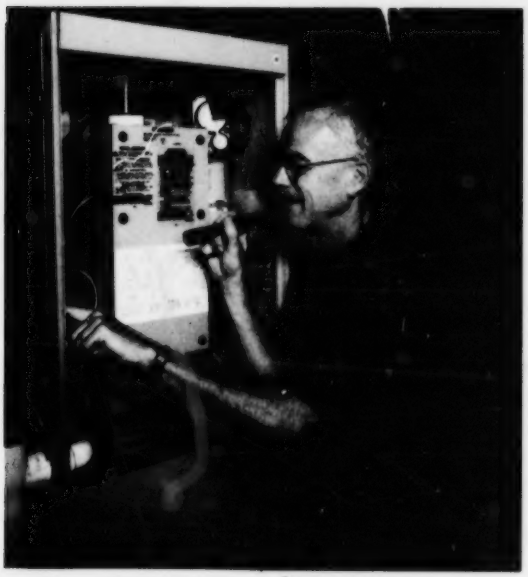
Winnipeg's Millennium Library has employed Power Smart measures that will reduce the facility's energy costs by approximately $72 000 annually.



Using Energy Wisely

In March 2006, Manitoba Hydro sponsored its third GeoExchange Industry Conference in Winnipeg. With more than 300 industry delegates in attendance, the conference provided the province's heat pump industry and a variety of consultants with a forum to exchange ideas and information.

Approximately 1 600 Manitobans had taken advantage of the program by fiscal year end. The program, announced on November 30, runs until March 2008 and is expected to reduce natural gas consumption annually by approximately 4.7 million cubic metres and carbon dioxide emissions by almost 9 000 tonnes by March 31, 2010.



A technician inspects an older gas furnace prior to upgrading.

Geothermal heat pumps maintain popularity

In total, 745 geothermal heat pumps were installed in Manitoba in 2005, more than in any other province. The past year saw 138 residential customers take out $2 million in Residential Earth Power Loans to help cover the additional cost of installing geothermal heat pumps rather than conventional heating and cooling systems. Since 2002, the Earth Power Program has provided financing to over 450 Manitoba homeowners for approximately $6.4 million in loans.

Manitoba Hydro has also been assessing the feasibility of installing residential geothermal systems on a mass scale in Winnipeg's future Waverley West subdivision. As an alternative to heating and cooling homes with natural gas and electricity, the highly efficient technology is aimed at helping customers mitigate the effects of energy price volatility and reducing greenhouse gas emissions.

Compact fluorescents grow in number

In 2005, Manitoba Hydro gave away 87 241 compact fluorescents (CFs) through the Power Smart Compact Fluorescent Lighting Program's "Buy One, Get Two Free" offer. CFs use 75 per cent less energy than incandescent bulbs and last 10 times longer.

Using Energy Wisely

Manitoba Hydro's Mark Prydun at a geothermal heat pump installation in southwest Winnipeg.

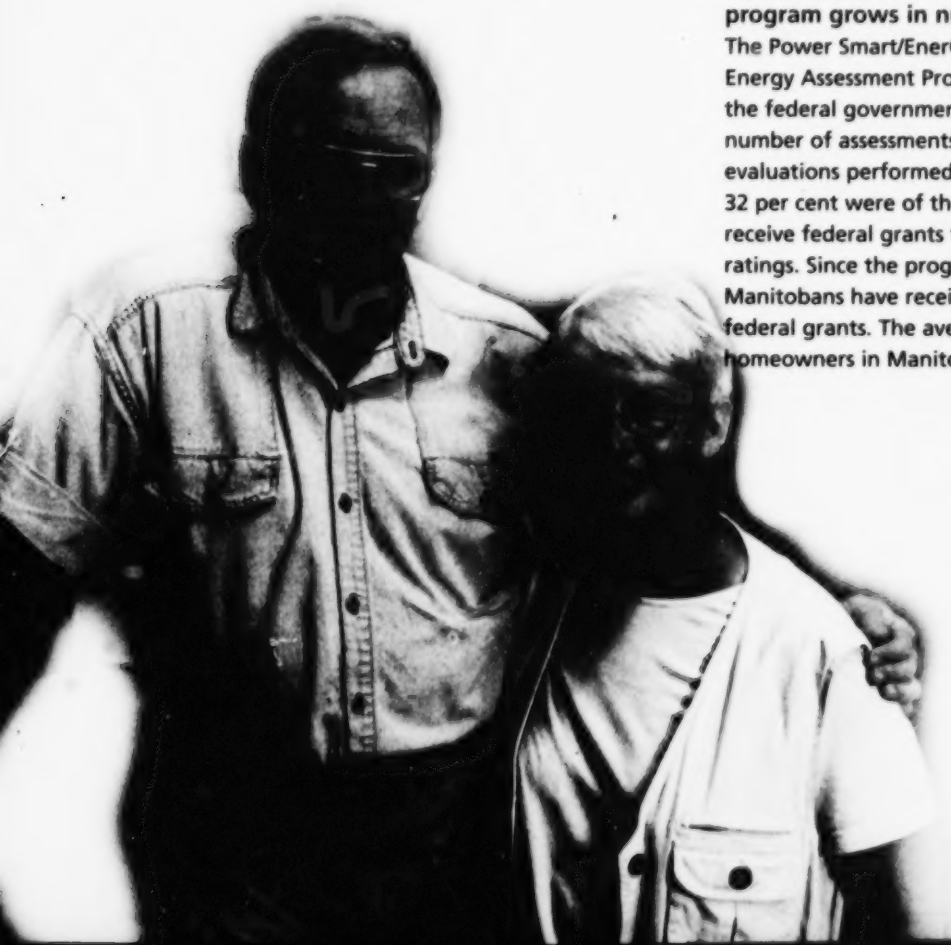
Using Energy Wisely

More new homes built to Power Smart standards

In 2005, the Power Smart New Home Program swiftly gained momentum. Certifications of homes built to Power Smart standards grew by over 329 per cent compared to the previous year and customer and builder inquiries continued to increase. The interest and demand was evident when Winnipeg's Fall Parade of Homes featured a record 10 Power Smart show homes built by nine Manitoba home builders.

Smart Meters reveal usage

A new pilot program was initiated in 2005 that enables customers to view their individual energy use patterns precisely. Smart meters, which make use of pre-paid energy cards, provide customers with up-to-date information on their energy consumption. Homes in Thompson, Morden, Winkler and two communities in Winnipeg - Riverview and Elmwood - were targeted for voluntary participation in the trial run.



Seniors benefit from WISE Program

The Wisdom in Saving Energy (WISE) Program for seniors completed its fifth successful summer in 2005. The program employs trained advisors that conduct in-home energy check-ups for senior customers, 55 and over, from May through August of each year. The program assists seniors with identifying and implementing energy saving measures in their homes and apartments.

Residential loans remain popular financing tool

The Power Smart Residential Loan continues to be a very popular financing tool for Manitobans interested in installing energy efficient measures in their existing homes. In 2005-06 the loan maximum was increased from $5 000 to $7 500. Over 6 200 loans were taken out in the year, exceeding $22 million in value. Total funding to date for the Power Smart Residential Loan program is over $82 million with 24 400 loans administered.

EnerGuide for Houses program grows in number

The Power Smart/EnerGuide for Houses In-Home Energy Assessment Program - a joint initiative with the federal government - exceeded last year's total number of assessments by 1 500. There were 6 800 evaluations performed in Manitoba and more than 32 per cent were of the type where homeowners receive federal grants for improving home energy ratings. Since the program was introduced in 2003, Manitobans have received almost $2.3 million in federal grants. The average grant for individual homeowners in Manitoba is currently $640.

Using Energy Wisely

New programs launched

More new programs were launched in the Power Smart for Business area this year, including the first incentives for commercial customers using technologies that assist with natural gas efficiency. They include the Commercial Building Optimization, Commercial Refrigeration for Retail Stores and Restaurants, Commercial Building Envelope, and Commercial HVAC programs. Taken together, it's estimated the new programs will save Manitobans 76 gigawatt-hours, 34 megawatts, and 19 million cubic metres of natural gas by 2017-18.

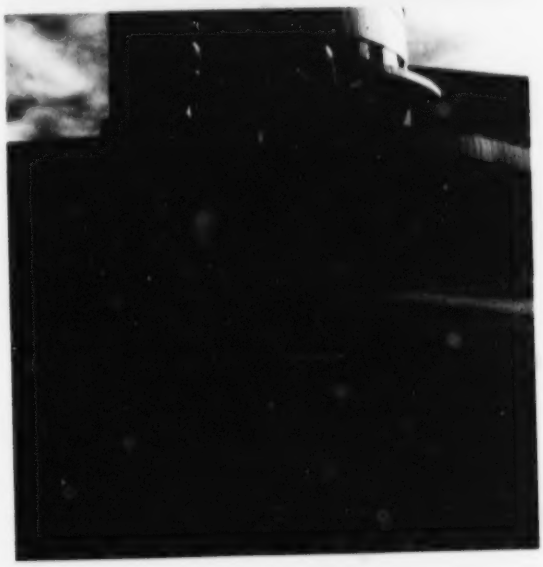
Nygard International retrofits

Local clothing manufacturer Nygard International took advantage of Manitoba Hydro's Power Smart Lighting Program to revitalize its office and retail spaces throughout Winnipeg and created better working conditions in many of its manufacturing and warehousing spaces. To date, approximately 250 000 square feet of Nygard facilities have been retrofitted, involving thousands of fluorescent fixtures and LED exit signs.

City of Winnipeg Power Smart Agreement creates substantial savings

The Manitoba Hydro-City of Winnipeg Power Smart Agreement was created to promote energy saving measures at a host of City-owned facilities. Since the agreement was signed in 2002 over 300 Power Smart projects in 170 municipal building have been completed, including lighting retrofits and controls, building envelope upgrades, water saving measures, HVAC upgrades and controls, mechanical modifications, and power factor corrections. The estimated annual savings for the City by the end of the agreement in 2012 are expected to add up to $1.2 million, including 850 000 cubic metres of natural gas, 42 000 cubic metres of water, and 14 gigawatt-hours of electricity. These savings are also estimated to reduce greenhouse gas emissions by 13 284 tonnes.

Manitoba Hydro's Glenn Cayer and Entegra Credit Union CEO Gordon Kirkwood outside Entegra's new branch office in Winnipeg. The building, which has been built to Power Smart design standards, features energy-efficient lighting, windows, and a geothermal heat pump.



Entegra Credit Union

Entegra Credit Union's Disraeli Freeway branch in Winnipeg is a LEED™ (Leadership in Energy and Environmental Design) registered project and was built to meet Power Smart design standards. The building's energy-efficient features include new windows, parking lot controllers for block heaters, and a lighting system that includes high-efficiency fluorescents, compact fluorescents, and occupancy sensors. The facility is also heated and cooled with a geothermal heat pump.

Boeing and Air Liquide

Manitoba Hydro partnered with Boeing Canada and Air Liquide Canada to upgrade the nitrogen generation system at Boeing's Winnipeg plant. The energy savings measures changes to the system involved the use of new compressor technology, more efficient booster pumps, large volume high pressure storage, and an innovative electrical metering and control system that tracks the plant's peak demand and selectively ensures nitrogen is generated only during more economical off-peak hours. The changes to the system cut the nitrogen generator electricity costs by 84 per cent.

Using Energy Wisely

Power Smart awards

Energy Innovators Award at Maple Leaf Consumer Foods

In 2005, the Maple Leaf Consumer Foods facility located in Winnipeg won a national Industrial Energy Innovators Award in the Integrated Energy Efficiency Strategy category. The award was presented to the company for a variety of innovative measures, including the installation of a heat exchanger that recovers waste heat from the hot gas discharged by the plant's air compressors. The recovered heat is used to offset the amount of steam supplied by the boiler, saving Maple Leaf Foods approximately $114 000 per year.

Energy Star® Awards

Manitoba Hydro was presented with the 2005 Energy Star® Market Transformation Award in the Promotional Campaign of the Year category for its participation in Natural Resources Canada's national Switch and Save Campaign for Compact Fluorescents.

The Corporation also received an Energy Star® Utility of the Year Award in 2006 for the Promotion of Multiple Energy Star Qualified Products. The award was received for several initiatives, including the Power Smart Residential Loan, the Compact Fluorescent Lighting Program, and the Furnace and Boiler Replacement Program.

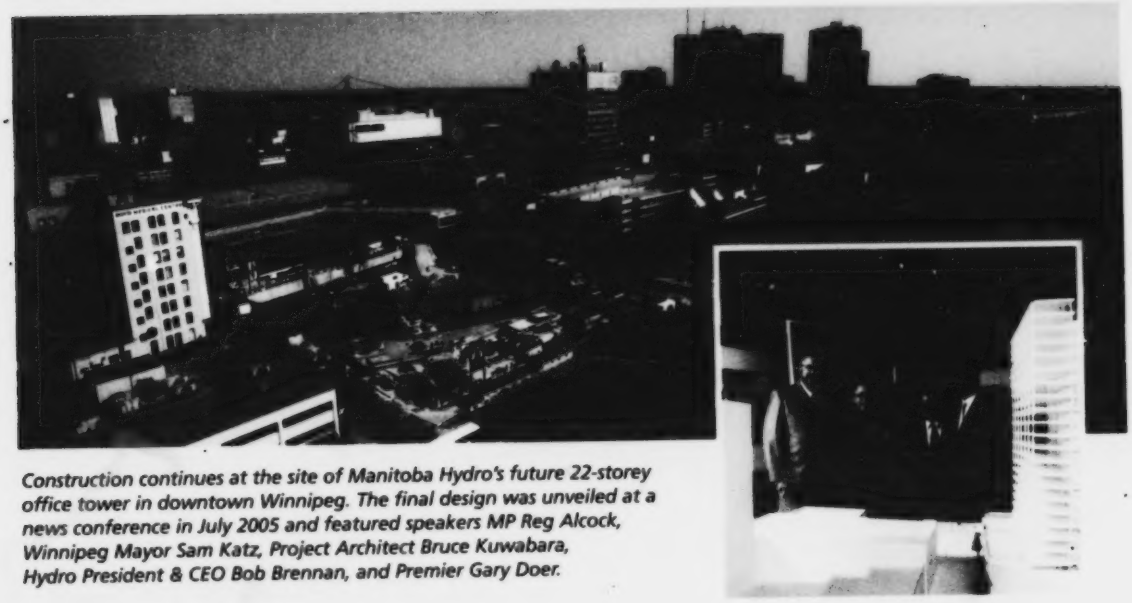
Power Smart homes win gold medals

Four of the 10 homes built to Power Smart New Home standards this year won Gold Medal Awards in Manitoba's prestigious New Home Competition, sponsored by the Manitoba Home Builders Association. Consumers vote independently on all of the houses featured in Winnipeg's spring and fall Parade of Homes - judging them on design, layout, and energy efficiency.

Several Power Smart homes were featured in Winnipeg's Fall Parade of Homes and four of them won gold medals in the New Homes Competition.

Special Feature

Manitoba Hydro's new Downtown Office under construction



Construction continues at the site of Manitoba Hydro's future 22-storey office tower in downtown Winnipeg. The final design was unveiled at a news conference in July 2005 and featured speakers MP Reg Alcock, Winnipeg Mayor Sam Katz, Project Architect Bruce Kuwabara, Hydro President & CEO Bob Brennan, and Premier Gary Doer.

Manitoba Hydro's new signature office building, currently under construction in downtown Winnipeg, will be a model of highly energy-efficient building design. The unique building targets a 60 per cent energy saving compared to conventional offices and is expected to result in Gold Level certification in the LEED™ "green building" criteria. This will be achieved by combining a number of innovative energy efficient technologies and environmentally innovative techniques. The building's form and orientation will maximize daylight and optimize passive systems for ventilation, heating, and cooling. These features will all contribute to a healthy, productive workplace for the building's occupants, expected to be approximately 2 000.

Specific energy efficient design features include windows that will maximize daylight and reduce artificial lighting, energy efficient lighting, pumps, a double external wall to reduce heating and cooling requirements in extreme temperatures, a living "green" roof with mosses, grasses, and lichens, and radiant heating and cooling. Three and six-storey winter gardens will collect sunlight and provide conditioned fresh air while a solar chimney will enhance fresh air ventilation. Reflecting Manitoba's leadership position in geothermal energy systems, the building's primary heating and cooling system will be a closed-loop geothermal heat pump system.

The new building, which was part of Manitoba Hydro's agreement to purchase Winnipeg Hydro, will cost $188 million to construct, with total costs projected to be $258 million with the inclusion of expenses such as enhanced information technology and telecommunications systems, pedestrian bridge linkages, and the building's unique design work.

Scheduled for completion in late 2007, the downtown office will occupy an entire city block on the south side of Portage Avenue between Edmonton and Carlton Streets. Connected to the downtown elevated walkway system, it will provide street level retail outlets and have a landscaped public courtyard on its southern exposure along Graham Avenue.

Year in Review

Exceptional Customer Service

Manitoba Hydro staff were kept busy this fiscal year with a higher than usual number of summer and winter storms that plagued the transmission and distribution system. In spite of the storms, customers continued to report high levels of satisfaction regarding reliability.

A Manitoba Hydro construction crew from Brandon clears ice off powerlines near Minnedosa in January 2006.

In June 2005, severe windstorms cut a path through various parts of southeastern Manitoba and the Whiteshell Provincial Park. Again in July, two severe summer storms caused separate outages on the transmission and distribution systems, particularly in Winnipeg. One of the windstorms knocked down eight wood-pole structures on the 230 000 volt LaVerendrye/Letellier export line to the United States.

At the beginning of October, a fierce snow storm caused power outages on a large scale, affecting towns such as Brandon, Elie, Gladstone, Killarney, MacGregor, Morden, Neepawa, Treherne, Pilot Mound and many points in-between. Again in mid-December, the Parkland area experienced widespread icing on transmission and subtransmission lines. Hydro crews worked around the clock to keep the ice from building up on powerlines. Throughout the period, customer outages were kept to a minimum as the proactive measures prevented more serious damage.

Exceptional Customer Service

Wind storms in June 2005 knocked down eight structures on a 230 kV export line to the United States.

Customer satisfaction with overall customer service

Manitoba Hydro conducts a quarterly survey of 500 randomly selected residential Manitoba households in its Customer Satisfaction Tracking Study. Customers remain very satisfied with Manitoba Hydro's overall customer service, reporting satisfaction levels of 8.4, up slightly from last year's rating and higher than the national average of 7.8 for Canadian electric utilities. Manitoba Hydro's customer service was rated the highest in Canada for 2005.

Electricity rates

Manitoba Hydro increased domestic electricity rates to all classes of service by 2.25 per cent on April 1, 2005.

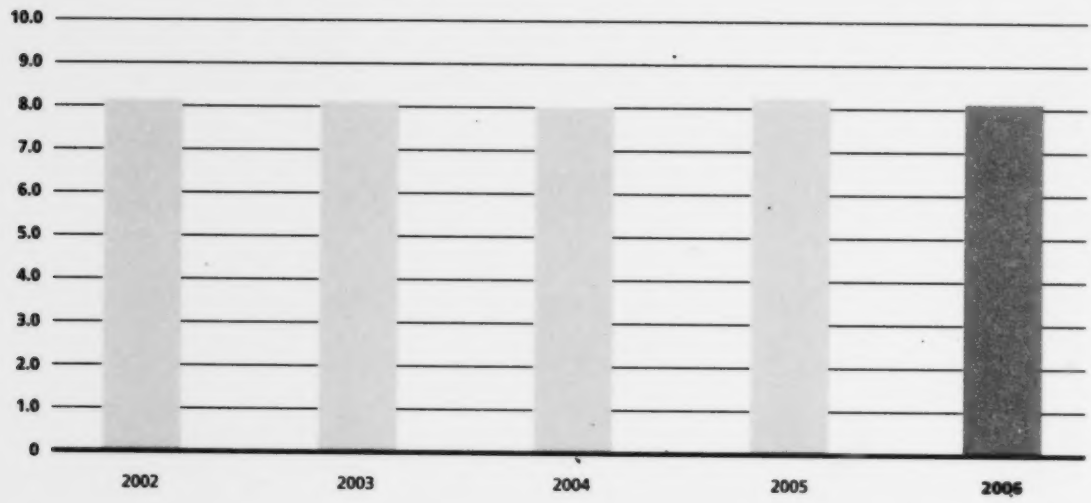
Natural gas rates

Manitoba Hydro purchases its natural gas from producers in Alberta and transports it to Manitoba through the TransCanada Pipeline network. Natural gas is a North American commodity and as a result, its price varies depending on supply and demand factors. The Corporation passes the cost it pays for natural gas directly to its customers with no mark-up and makes no profit from the sale of primary gas. Manitoba Hydro helps lessen the impacts of volatile natural gas prices through the use of derivative instruments, deferral accounts, and gas storage, as well as through quarterly adjustment of natural gas rates. In addition, the Corporation provides customers with the option of enrolling in the Equal Payment Plan, as with electricity, to smooth out their natural gas energy bills.

Exceptional Customer Service

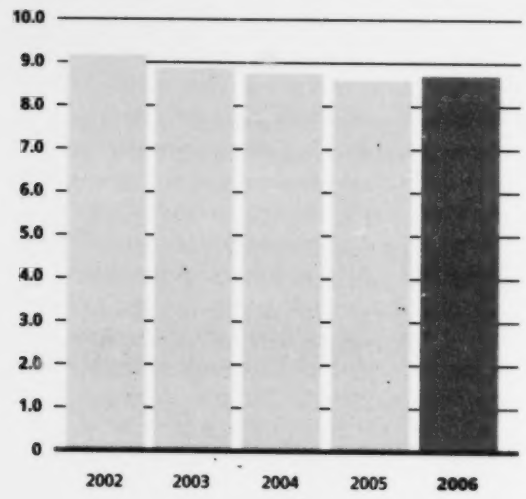
Corporate Image Index

Source: Manitoba Hydro quarterly Customer Satisfaction Tracking Survey



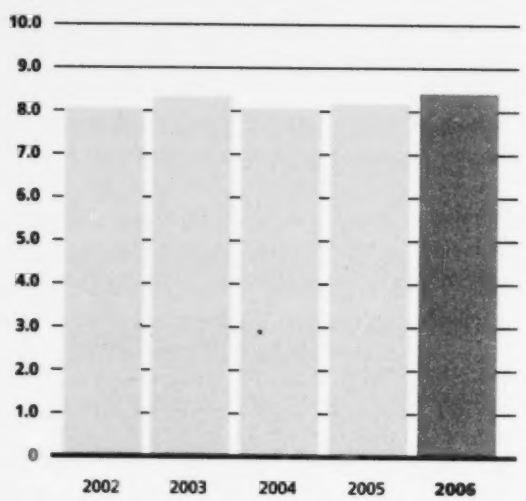
Customer Satisfaction with System Reliability

Source: Manitoba Hydro quarterly Customer Satisfaction Tracking Survey

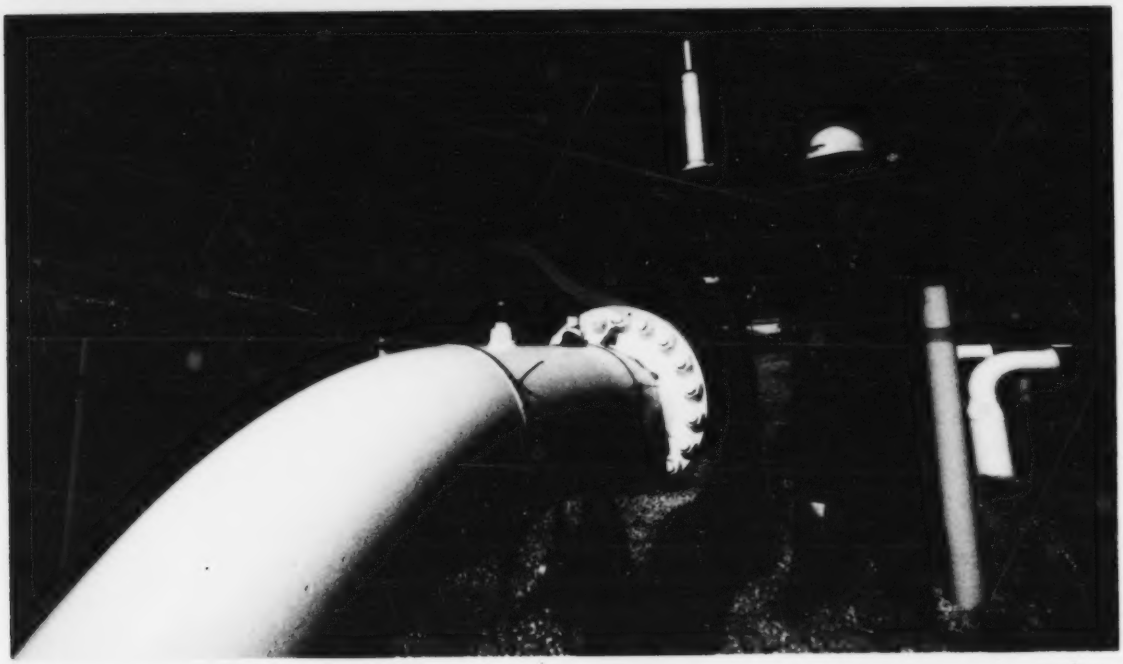


Customer Satisfaction with Overall Service

Source: Manitoba Hydro quarterly Customer Satisfaction Tracking Survey



Exceptional Customer Service



A maintenance worker adjusts a control valve at Natural Gas Station #41 on the grounds of the Selkirk Generating Station.

During the year, the following changes to natural gas prices were implemented: May 2005 (10.9 per cent increase), August 2005 (2.7 per cent increase), November 2005 (6.3 per cent increase), February 2006 (0.3 per cent increase). All percentages above are based on an average annual increase or decrease for residential natural gas customers.

Emphasizing safety

A new series of safety messages appeared on permanent billboards located on Manitoba Hydro property throughout the province. The billboards, which highlight dangers of using electricity and natural gas inappropriately, have proven to be an effective reminder for customers. Designed in a movie poster motif, the billboards attracted attention to such topics as Substation Safety, Call Before You Dig, Emergency Preparedness, and Contractor Beware.

Farm Safety Day Camps

In May and June 2005, over 1 800 rural students participated in 12 provincially-sponsored Farm Safety Day Camps, held in various towns throughout Manitoba. As a participant, Manitoba Hydro promotes electrical safety around the farm and networks with other organizations with an interest in farm safety. The students, ranging from grades four to eight, tested their knowledge through a series of questions, pictures, and drawings that required the correct safety answer.

Year in Review

Power for Generations

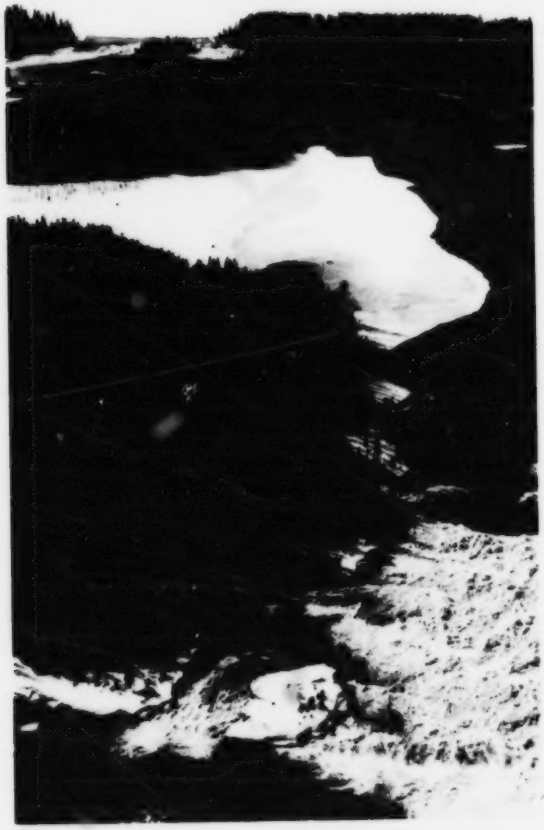
The province's water conditions throughout the fiscal year were very positive from the perspective of hydroelectric production. Record high flows across most of the Nelson, Churchill, and Winnipeg River drainage basins created new hydraulic generation records at Kettle, Long Spruce, Limestone, Laurie River 1 and 2, and Grand Rapids generating stations. In addition, measurements on the Nelson River at Kettle; the Churchill River at Leaf Rapids; and the Winnipeg River at Pine Falls, showed the highest flows in recorded history.

New energy from wind

Almost exactly one-year after construction began, the St. Leon Wind Farm erected the last of its 63 wind turbines in March 2006. The 99-megawatt wind farm will augment the Corporation's existing hydroelectric system. The project also included the design and construction of a 3.1 km, 230 kilovolt single-circuit transmission line from the wind farm to the St. Leon Station.

Named after the Manitoba town located 110 km southwest of Winnipeg, the St. Leon Wind Farm is one of the largest in Canada. The site is owned by AirSource Power and consists of 63, 1.65 megawatt Vestas V82 turbines, each standing 80 metres tall. As outlined in the 25-year power purchase agreement with AirSource Power, Manitoba Hydro will purchase the output from the wind farm when it reaches full commercial operation in the summer of 2006.

Manitoba Hydro and the Province of Manitoba jointly released an Expression of Interest in November 2005, which invited other developers to submit information on their proposed developments greater than 10 megawatts. The Expression of Interest drew a response of 36 proposals from local communities, potential wind developers, turbine manufacturers, and interested First Nations.



Taskinigahp Falls on the Burntwood River, potential future site of the Wuskwatim Generating Station.

Wuskwatim Generating Station and Transmission Project moves forward

In late March 2006, Manitoba Hydro and the Nisichawayasihk Cree Nation (NCN) announced the completion of negotiations regarding the business partnership for the 200-megawatt Wuskwatim Generating Station. The negotiations included the project's commercial terms, financing agreements, partnership terms, and direct negotiated contracts with NCN businesses. NCN also announced an extensive consultation plan for its membership, leading up to a secret ballot referendum in June 2006. Construction of the generating station would begin soon after a positive vote by the community. Located at Taskinigahp Falls on the Burntwood River, Wuskwatim is projected to take approximately five years and will result in less than half a square kilometre of flooding.

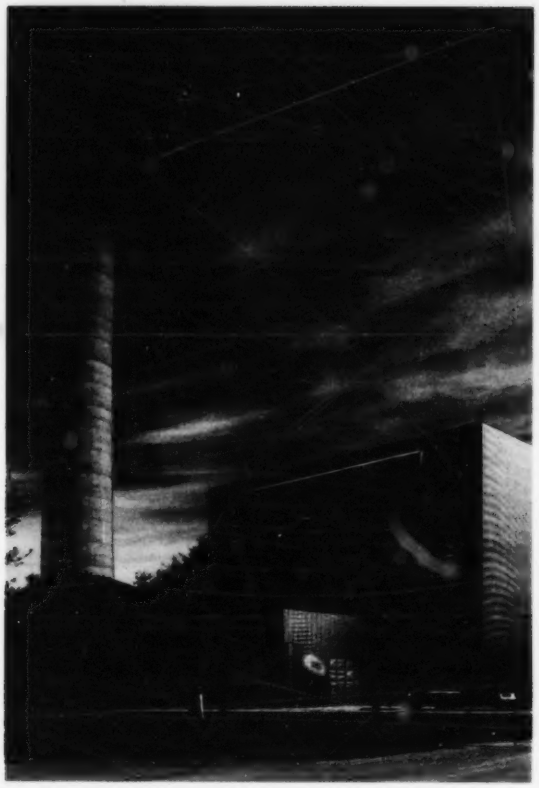
During the past year, the federal government concluded in its comprehensive Study Report of November 2005 on the Wuskwatim Generating Project that the project would have no significant adverse effects. In tandem with the federal approvals, the provincial approval process continued throughout the past year.

Wuskwatim-Keeyask Training Consortium

The Manitoba Hydro Northern Training Initiative is a pre-project training program designed to provide Northern Aboriginal People with the necessary skills to acquire employment on proposed generating station projects in northern Manitoba. The Wuskwatim-Keeyask Training Consortium, an arms-length entity consisting of Aboriginal partners Nisichawayasihk Cree Nation, Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation, Fox Lake Cree Nation, Manitoba Keewatinowi Okimakanak, and the Manitoba Métis Federation, and funding partners Manitoba Hydro and the Province of Manitoba, oversee the initiative.

By year's end approximately 482 individual trainees had received training in various skills and trades, including welding, carpentry, ironworking, and heavy equipment operating, with enrollment expected to continue. A total of $60 million is available for the training, with funds being contributed by the federal government ($30 million), Manitoba Hydro ($20 million), and the province ($10 million). Training is centrally coordinated but community planned and managed, with each of the Aboriginal partners responsible for designing and delivering training to their members.

Power for Generations



The 125 megawatt Selkirk Generating Station, one of Manitoba Hydro's two generating stations utilizing natural gas.

Environment Act License Reviews at thermal stations

Manitoba Conservation, with assistance from Manitoba Hydro, participated in scheduled reviews of the Environment Act Licenses for the Brandon and Selkirk thermal generating stations in 2005. To assist with the review, the Corporation updated its aquatic studies, air quality health risk assessments, and socio-economic assessments. The review assessed and compared the plant's environmental performance against current environmental standards. As part of the review, an Environmental Impact Statement on the continued operation of Selkirk was submitted to Manitoba Conservation. The Brandon Generating Station submission of the finalized Environmental Impact Statement is targeted for September 2006.

Keeyask

Planning for the 620-megawatt Keeyask Generating Station continued during the year in collaboration with four Cree Nations in the lower Nelson River region: Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation, and York Factory First Nation. Manitoba Hydro continued the negotiation process with all Keeyask Cree Nations to conclude a development agreement in advance of the regulatory review process and project construction.

Members of all Keeyask Cree Nations are participating in training to prepare themselves for proposed jobs on the project and for other northern hydroelectric projects. Participation of Aboriginal People on the project's environmental assessment process also continued during the year, with members of Keeyask Cree Nation participating in a variety of field programs. Social, historical, and traditional knowledge continues to be addressed and each community has developed and implemented studies to assess their specific concerns with respect to the project.

Conawapa

While no final design, development, or construction plans have been made for Manitoba Hydro's proposed Conawapa Generating Station, engineering, environment, and public consultation planning activities are proceeding. If developed, Conawapa would be the largest hydroelectric station ever built in the province.

Exporting Electricity and Enhancing Reliability

Manitoba Hydro's exports of electricity to neighbouring provinces and mid-western markets in the United States has many positive aspects. Exports contribute to keeping Manitoba Hydro's electricity rates among the lowest in North America and help reduce greenhouse gas emissions through the use of self-renewing water power.

Canada's largest electricity exporter

In the 2005 calendar year, Manitoba Hydro was distinguished as Canada's largest exporter of electricity to the United States. The high water conditions - which resulted in unprecedented hydroelectric production during the year - helped Manitoba Hydro account for 50 per cent of Canada's 23 951 gigawatt-hours of net electricity exports to its southern neighbours. In addition to the positive water conditions, the Corporation's aggressive Power Smart programs helped Manitobans and the utility save energy, thus making more energy available for export.

Discussions continued on Manitoba-Ontario power sale

Discussions continued throughout the year between the governments of Manitoba and Ontario regarding the Clean Energy Transfer Initiative. An understanding between the two provinces was initiated in October 2005 to evaluate the transfer of renewable hydro power to Ontario. The understanding is the first phase of a larger 1 500 or more megawatt power sale that is currently under discussion by the two provinces.

Exporting Electricity and Enhancing Reliability

WIRE Services
In October 2005, Manitoba Hydro's Worldwide Integrated Rating Enhancement (WIRE) Services renewed a multi-year contract with Calgary-based LiDAR Services International (LSI). Using LSI's thermal imaging technology, WIRE Services produces accurate "as-built" models of transmission lines for Manitoba Hydro and other utilities worldwide, using current wire, terrain, and structure data collected by helicopter. The new contract allows WIRE Services to continue serving the North American market as well as exploring opportunities in Asia, Europe, and Australia.

If approved by both provinces, the Clean Energy Transfer would begin with 150 megawatts and increase to 400 megawatts as transmission upgrades come online to increase capacity between Manitoba and Ontario. The upgrades are expected to be completed in 2010, representing an increase of east-west grid capacity at the critical Manitoba-Ontario connection point.

System readiness

In June 2005, the North American Electric Reliability Council (NERC) conducted an independent readiness audit to assess Manitoba Hydro's preparedness to meet the reliability responsibilities of a transmission operator and balancing authority. The audit team concluded Manitoba Hydro has adequate plans, facilities, processes, and trained staff to meet its obligations. The team also assessed as exceptional Manitoba Hydro's System Operator training program and fully functional Back-up Control Centre.

Electric Reliability Organization formed

As a result of the August 2003 blackout in Ontario and the northeastern United States, a joint Canada-United States task force recommended the creation of an international Electric Reliability Organization. Canadian entities, including Manitoba Hydro, are working to establish rules whereby reliability standards are mandatory and enforceable.

Manitoba Hydro participates in new Midwest Energy Market

On April 1, 2005, the Midwest Independent Transmission System Operator (MISO) launched a new, competitive, electricity market in the United States and changed how Manitoba Hydro does business with some of its most important export customers. Encompassing a region from North Dakota, through Minnesota and Wisconsin, and Ohio to Kentucky, MISO created day ahead and real-time energy markets responsible for dispatching all generation resources across 15 states and setting real-time prices for electricity.

The new MISO market computer system sorts hundreds of generation offers from lowest cost to highest cost, estimates the current load, and selects the lowest cost generation offers as required to meet the load in the midwest United States.

The day-ahead and real-time market replaces a portion of direct bilateral trading of short-term surplus electricity between utilities. Electricity within the MISO region is pooled and member utilities can purchase from the pool at prices set by the market.

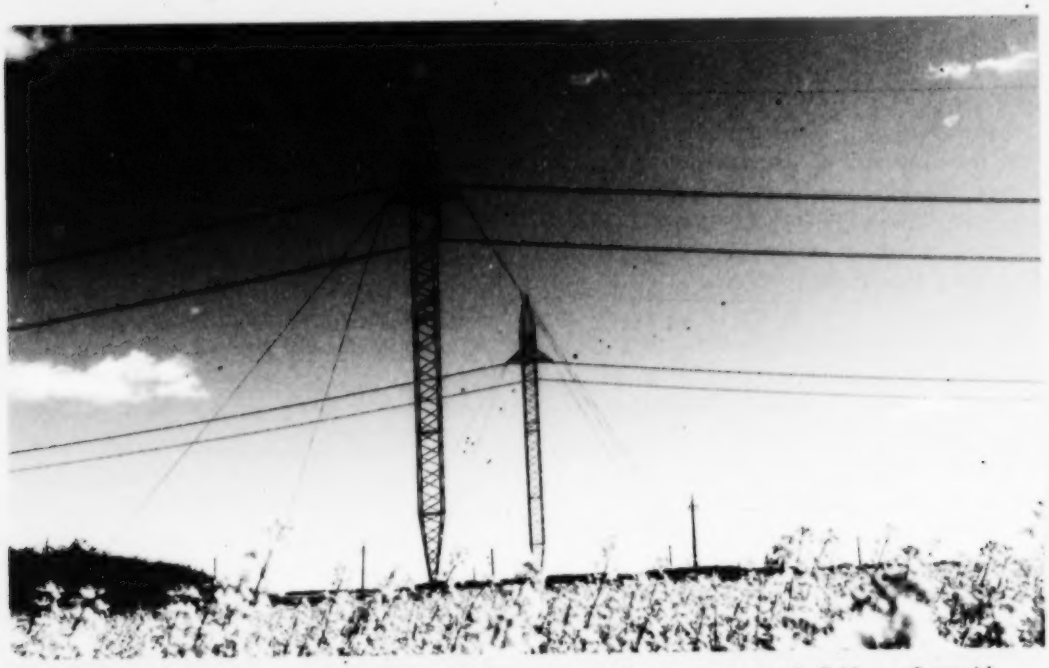
As a Canadian member who has a coordination agreement with MISO, Manitoba Hydro does not directly participate in the market and maintains control of its own generation. Instead, Manitoba Hydro operates as an external participant selling surplus electricity into the energy market.

Exporting Electricity and Enhancing Reliability

HVDC system honoured with IEEE award

In June 2005, the Institute of Electrical and Electronics Engineers (IEEE) History Committee recognized Manitoba Hydro's Nelson River High Voltage Direct Current (HVDC) transmission system as an engineering milestone. The Milestone Program acknowledged the importance of the HVDC system and how it made the hydroelectric development of the Nelson River possible. The program honours significant achievements in the history of electrical and electronics engineering.

Len Bateman (retired Manitoba Hydro President), Bob Brennan (President & CEO), Bill Kennedy (President, IEEE Canada), Lindsay Ingram (retired), and Dr. Ani Gole (University of Manitoba), attend the IEEE ceremony.



Manitoba Hydro's twin high voltage direct current (HVDC) transmission lines on a canola field near Grosse Isle.

Exporting Electricity and Enhancing Reliability

A construction crew replaces conductors on a transmission line near Letellier.

Corporate Emergency Preparedness Plan
Since 2003, Manitoba Hydro has been very proactive regarding its Corporate Emergency Preparedness Plan. Emergency staff works closely with their counterparts at the City of Winnipeg and the provincial and federal governments to hold mock emergency exercises and test company responses. The preparedness plan continues to be refined for any number of unforeseen emergencies that would have a significant impact on the utility and its customers.

Fibre optics network expands
The utility's fibre optics system was substantially expanded again this year with the installation of fibre optic cable between Dauphin and Ashern and also between Winnipeg and Letellier. Manitoba Hydro's fibre optic network was created to protect and control the electric power system but also provides the opportunity for many rural customers seeking to take advantage of the network's broadband capabilities and internet access.

Manitoba Hydro Receives 2006 Project of the Year Award
In March 2006, Manitoba Hydro's webTrader Enterprise Project was named the 2006 Project of the Year by the Manitoba chapter of the Project Management Institute. The award honours made-in-Manitoba projects that achieve superior performance and use progressive project management practices.

The goal of the project was to meet the business requirements of the Power Sales & Operations and Gas Supply divisions for a world-class energy trading, scheduling, and settlement system. On the electricity side, a replacement for the existing transaction scheduling system was required to allow Manitoba Hydro to participate in the MISO Day 2 markets.

On the natural gas side, webTrader implementation provided a fully integrated application to replace the spreadsheets and databases that were formerly being used to track gas transactions and invoice customers.

Remediation measures
A variety of soil remediation measures were undertaken at several station sites within Manitoba Hydro's system, including the former Ruttan A Station, Milner Ridge Station, Piney Station, and two stations in Virden. Soil remediation work was also carried out at the former diesel generating station site at Cormorant.

Year in Review

Strengthening Aboriginal Relationships

Children celebrate on National Aboriginal Day at The Forks in June 2005. At the event, Manitoba Hydro announced the winners of its annual Spirit of the Earth Awards.

Increasing Aboriginal staff representation

One of the many ways the Corporation has strengthened its relationships with Aboriginal people is by hiring more employees of Aboriginal ancestry. By year's end, Aboriginal employment at Manitoba Hydro was 11.5 per cent of the total staff population and 34.2 per cent of the northern staff population.

Waterways Management Program

Manitoba Hydro's successful Waterways Management Program is another critical component of strengthening relationships with northern Aboriginal communities. It consists mainly of debris clearing, boat patrols, and marking safe ice trails. Several times throughout the year, First Nation communities were invited to new employee and contractor safety education presentations hosted by Manitoba Hydro. The Safety and Health Education Program was completed for several workers in boat patrol, debris management, and safe ice trail activities.

Cultural awareness for employees

For nine years running the Corporation has continued to promote its employees' understanding of Aboriginal history and culture and the important role Aboriginal people have played in Canada and Manitoba. The specialized training includes a review of Manitoba Hydro's own history with Aboriginal people and the utility's commitment to strengthening these relationships.

Compensation and mitigation initiatives to Aboriginal communities

To date, Manitoba Hydro has committed almost $600 million for compensation and mitigation initiatives to communities affected adversely by some of the utility's projects. A measure of the Corporation's success in addressing the impacts of past development is the number of workable agreements reached with impacted communities, currently at 80 per cent.

Strengthening Aboriginal Relationships

Gold Award for Aboriginal Girls Summer Camp

For the second consecutive year, the Human Resource Management Association of Manitoba recognized Manitoba Hydro with their Human Resource Leadership Gold Award for the Building the Circle Summer Camp. The fourth phase of the project, which provides young Aboriginal women with summer intern positions in Winnipeg and Gillam, was designed to encourage interest in engineering, trades, and technology careers.

Bursaries, scholarships, and sponsorships

The Employment Equity Educational Funding Program has awarded over $100 000 to students in support of their educational pursuits in the form of awards, bursaries, scholarships, and program sponsorships. A significant portion of the awards are specifically targeted for Aboriginal students. Many of the students will be offered employment with Manitoba Hydro over the summer, which give them the chance to continue their education while exposing them to new opportunities in their field of study through summer internships.

Career Development Partnership with Manitoba Métis Federation

Another initiative aimed at increasing the representation of persons of Aboriginal ancestry within the workforce is the Career Development Partnership. The Manitoba Hydro and Manitoba Métis Federation partnership focuses on increasing Métis representation in professional, semi-professional, and technology occupations.

Pre-Placement Training Program

The Pre-Placement Training Program continues to enroll Aboriginal candidates. The initiative provides up to 10 months of pre-placement academic upgrading and trades training for candidates who don't currently possess the requisite entry requirements for the in-house trades training program.

Manitoba Métis Federation Relationship Task Force

The joint Manitoba Hydro and Manitoba Métis Federation (MMF) Relationship Task Force continued to meet in the fiscal year to improve the relationship and understanding between the two groups.

Manitoba Hydro won its second Human Resource Leadership Gold Award for the Aboriginal Girls Summer Camp, designed to encourage interest in engineering, trades and technology careers.

Strengthening Aboriginal Relationships

At the end of March 2006, the Nisichawayasihk Cree Nation and Manitoba Hydro announced the finalized Project Development Agreement for the Wuskwatim Generating Station and Transmission Line Project. NCN Councillor Elvis Thomas, NCN Chief Jerry Primrose, Hydro President & CEO Bob Brennan, and Power Planning & Development Division Manager Ed Wojczynski stand with a copy of the historic document.

Cross Lake First Nation

Of the five communities which were signatories of the Northern Flood Agreement (NFA), four have reached comprehensive settlement agreements with Manitoba Hydro. The Corporation remains committed to resolving project-related impacts with the Cross Lake First Nation, including fulfilling its obligations from the 1977 NFA.

At Cross Lake, the annual Action Plan approach developed in 2003 was re-established for the 2005-06 fiscal year. This approach provides support and programming related to the Corporation's obligations under the NFA, including resource harvesting access and navigation, recreation, debris management, and infrastructure works. In addition to the Action Plan, the Corporation provided funding for a number of initiatives brought forward by Cross Lake as accountable credits against its NFA obligations.

Moose Lake

An adverse effects agreement, valued at $350 000, was signed in September 2005 with the Moose Lake Community Council, the Province of Manitoba, and Manitoba Hydro. The agreement addressed any outstanding issues related to hydroelectric development not covered by the existing 1990 agreement.

Archeological preservation

Archeological preservation has been an established mitigation measure at Manitoba Hydro since the development of the Churchill River Diversion and Lake Winnipeg Regulation projects of the early 1970s. The largest and longest running program of this kind is the Churchill River Diversion Archeological Project, which involves collecting, analyzing, identifying, and replicating heritage resources. Started in 1973, the investigations have significantly contributed to the knowledge of the area and are considered to be the most extensive collection of artifacts from a boreal forest in the world.

Year in Review

Protecting the Environment

One of Manitoba Hydro's highest values is to be proactive in protecting the environment. The utility funds numerous programs and initiatives – all aimed at responsible environmental stewardship.

Greenhouse Gas Emissions

Manitoba Hydro remains a national leader in managing its greenhouse gas (GHG) emissions. While the Corporation's emissions are small compared to other sources within the province or among other Canadian utilities, its commitment is proactive. The utility's average net GHG emissions were 15.7 per cent below 1990 levels at the end of 2005 – exceeding the voluntary commitment originally established under Canada's Voluntary Challenge and Registry program of a six per cent reduction. And under the Corporation's participation in the Chicago Climate Exchange (CCX), Manitoba Hydro has committed to progressively step up its GHG emission reductions to four per cent of baseline emissions (defined as average emissions over the 1998-2001 period) in 2006. Manitoba Hydro is in full compliance with the CCX target and currently has a surplus.

Forest Enhancement Project

Since 1995, the Forest Enhancement Project has supported 586 community projects throughout Manitoba which translates into the planting of approximately 113 000 trees. A wide variety of community organizations participate in tree-planting projects and forest education, including schools, churches, hospitals, cemeteries, and community and recreational spaces. Manitoba Hydro has helped fund trees for walkways in Thompson and Brandon, baseball parks in Ile des Chenes, and historic cemetery restorations in Powerview and Cross Lake, just to name a few. To administer the program Manitoba Hydro works with the Manitoba Forestry Association and the Manitoba Conservation Districts Association.

Woodland caribou studies

Throughout the winter of 2005-06, woodland caribou populations that could potentially be affected by the proposed Keeyask and Wuskwatim generating stations, continued to be studied. The research, conducted primarily through ground and aerial surveys, is intended to collect data on the populations, seasonal ranges, and herd movements of the caribou.

Beluga whale research at the Nelson River estuary

Manitoba Hydro was one of several participants funding beluga whale research this past summer in the Nelson River Estuary at Hudson Bay. Various experts, including a team from the federal Department of Fisheries and Oceans, captured several beluga whales in the estuary in order to tag them with satellite radio transmitters.

Green Fleet

This year, the Corporation's fleet became the first in the province to commercially purchase made-in-Manitoba biodiesel. The fuel was used in the fleet's diesel trucks at two locations in Winnipeg. Manitoba Hydro is also considered a provincial leader in adopting hybrid vehicle technology - including research on plug-in hybrids - with seven hybrid cars and nine hybrid trucks in its fleet.

Researchers measure a beluga whale in the Nelson River estuary.

Through the transmitters, data was collected and transmitted to orbiting satellites and downloaded to a receiving station. Information acquired by the tags will be used to help understand the status and habitat use of belugas in the region.

Grand Rapids Walleye Spawning Program

Every year since 1997, a seven-week spring spill has been initiated in the Grand Rapids Generating Station's spillway channel to support the Walleye Spawning Enhancement Program. The goal of the program is to determine if a natural, self-sustaining walleye spawning population can be established within the spillway channel bed. The program is carried out with the participation of the Grand Rapids First Nation, the Grand Rapids Fisherman's Co-op, Manitoba's Water Stewardship Department, and the Department of Fisheries and Oceans.

Year in Review

Our Employees Skilled, Innovative and Diverse

Skilled, innovative, and diverse employees are the energy at the heart of Manitoba Hydro. The utility's workforce consists of highly technical staff, with 75 per cent of careers in trades, finance, technology, and engineering. Manitoba Hydro is the largest employer of engineers in the province and among the largest employers of accounting and finance professionals.

A maintenance worker removes and cleans oil in a transformer at Manitoba Hydro's Dorsey Converter Station.

Committed to employee development, Manitoba Hydro has a world-class trades training facility and best-practice in-house training programs, some of which include: Engineer-in-Training, Information Technology, Relay Protection & Control, Telecommunications & Control, Trades Apprenticeship, Commerce Career Development, and Leadership Excellence. The utility also supports financial and educational leaves for employees who wish to further their education in a field relevant to Manitoba Hydro's operations.

Our Employees: Skilled, Innovative and Diverse

President & CEO Bob Brennan speaks at a special gathering that acknowledged the Corporation's Acquired Brain Injury Vocational Re-integration Initiative.

Encouraging diversity

In support of employing women, persons with disabilities, new immigrants, Aboriginal peoples, and members of visible minorities, work exposure and paid on-the-job training opportunities continued to be identified for participants of community-based employment programs, such as the Society for Manitobans with Disabilities, Canadian Council on Rehabilitation and Work, Reaching E-Quality Employment Services, and the Workers Compensation Board of Manitoba.

The Corporation continued to identify workplace accommodations for employees with disabilities. Working with key community partners, notable success was achieved with Manitoba Hydro's Acquired Brain Injury Vocational Re-integration Initiative. The model has been shared with other businesses and utilities in order to build a network of employment opportunities for individuals suffering with this particular disability.

In addition, Manitoba Hydro supported the Internationally Educated Engineers Qualification Program, developed by the University of Manitoba and the Association of Professional Engineers and Geoscientists of Manitoba. An internal team created the necessary recruitment processes so that graduates of the initiative could transfer into paid employment with Manitoba Hydro. Manitoba Hydro has also partnered with the International Centre of Winnipeg to provide a volunteer mentorship program that pairs professional employees with immigrant professions in the same field. Manitoba Hydro continues to be sought out and recognized by organizations both within and outside Manitoba to share its best practices in workforce diversity. The Canadian Electrical Association profiled Manitoba Hydro as one the five Best Practice companies for its equity initiatives.

Year in Review

Being an Outstanding Corporate Citizen

Manitoba Hydro has a long, rich history of supporting a multitude of community initiatives throughout the province and 2005-06 was no exception. Employee volunteerism is actively encouraged at Manitoba Hydro and has always been a point of pride within the organization.

Neighbours Helping Neighbours expands to Brandon/Westman

The Salvation Army and Manitoba Hydro continued their efforts to help disadvantaged people in the community by expanding the Neighbours Helping Neighbours program to the Brandon/Westman area of the province in February.

Neighbours Helping Neighbours is a voluntary program administered by the Salvation Army that provides emergency funding and community program referrals to people who are unable to pay their energy bills due to personal hardship. The program depends on the well-established generosity of average Manitobans. Utility customers simply add a monthly contribution to their energy bill or make a one-time donation to the Salvation Army. To date, the program has provided 530 families and individuals with financial assistance and valuable community support through the Salvation Army.

Bears On Broadway

In May 2005, Manitoba Hydro participated in a fundraising and awareness campaign undertaken by CancerCare Manitoba. Bears on Broadway, which were life-sized concrete polar bears decorated by local artists and sponsored by local companies, created a unique attraction in Winnipeg's downtown. Manitoba Hydro's bear was suitably adorned with fire-retardant coveralls and a hard hat and spade - with a safety reminder to Call Before You Dig.

Bateman mural in Thompson sponsored by Manitoba Hydro

In 2005, Manitoba Hydro sponsored Canada's largest photo-real mural, a 10-storey image of a wolf painted on the side of Highland Tower in Thompson. The image of the wolf looking out over the landscape is a reproduction of a Robert Bateman wolf sketch drawn in 1990 and is the only Bateman mural in the world. The sponsorship reflects the Corporation's presence in the northern community and its commitment to the people who live and work there. The Bateman mural is the first of several attractions being planned for the Spirit Walkway, a project spearheaded by a group of local volunteers who want to showcase Thompson as a world-class tourist destination. When completed, the Walkway will include 18 points of interest, including Canada's largest rock face sculpture and attractions that highlight Aboriginal art and culture.

Vision Quest

Manitoba Hydro was a gold sponsor of the 9th Annual Vision Quest Conference in May 2005, which promotes Aboriginal economic, business and community development and featured keynote speakers and workshops. At the conference, the Corporation also announced the 2005 Spirit of the Earth Award recipients. Now in its third year, the Spirit of the Earth Awards recognize individuals, groups, or organizations whose environmental activity has been planned or implemented by Aboriginal people, or non-Aboriginal people working in partnership with Aboriginal communities.

Being an Outstanding Corporate Citizen

Louie's Club gets a makeover

Manitoba Hydro's official safety mascot, Louie the Lightning Bug, has a safety club that ensures thousands of children province-wide learn all about electricity and electrical and natural gas safety. This year the club was updated with a more contemporary look. Louie's Play it Safe Club has been around for over 10 years and continues to add new, young members each month. As members, children between the ages of three and 10 receive an official membership booklet filled with tips, games, and crafts - all aimed at enhancing safety. At year's end, there were a total of 8 664 young members enrolled in Louie's Club.

Manitoba Hydro sponsored this 10-storey image of a wolf based on a Robert Bateman painting on the side of a building in Thompson. The mural is one of several attractions being planned for Thompson's Spirit Walkway.

Being an Outstanding Corporate Citizen

Manitoba Hydro was the title sponsor of the Power Smart Manitoba Games, held in Beausejour, March 6 to 12, 2006. The games featured a variety of winter sports, such as curling and hockey.

Being an Outstanding Corporate Citizen

Retired employees Logie Johnson and Alex McKenzie in front of a new display called "The Pole Dwellers" at the Manitoba Electrical Museum & Education Centre in Winnipeg.

Manitoba Electrical Museum attracts visitors

In its fourth year of operation, the Manitoba Electrical Museum & Education Centre in Winnipeg attracted over 6 800 visitors, with a third of those coming from various school groups. Fulfilling its mandate of capturing the proud legacy of electrical development in the province, the museum also serves to educate children about electrical safety. A special exhibit called "All That Glows: Then and Now" provided visitors with a chance to see how holiday lighting trends in North America have changed over the last century. The event attracted about 2 500 visitors from November 2005 to January 2006, more than doubling the attendance from the same period the previous year.

2005 Power Smart Winnipeg Jaycees Santa Claus Parade

Manitoba Hydro was once again the title sponsor of the Power Smart Winnipeg Jaycees Santa Claus Parade in November 2005. An estimated 90 000 adults and children watched the Parade as it showcased 62 colourful corporate and community floats. Seven Hydro floats were part of the parade, including the Power Smart Express, Season's Sweetings, and the always popular Electrosaurus float.

Power Smart Manitoba Games

Manitoba Hydro was the title sponsor of the Power Smart Manitoba Winter Games, held in Beausejour, March 6 to 12, 2006. Over 3 500 participants from across Manitoba qualified at the regional level in 10 different sports. Nearly 1 600 young athletes between the ages of 10 and 21 advanced to the provincial finals while 1 200 volunteers stepped forward to help make the event a huge success.

The games are held every two years, alternating between summer and winter events. Manitoba Hydro will be the title sponsor of the Summer 2008 and Winter 2010 Power Smart Manitoba Games.

Subsidiaries

Manitoba Hydro International

Manitoba Hydro International (MHI) continued to provide utility expertise to other organizations and utilities around the globe as well as offering employees unique opportunities for professional growth. Since 1985, MHI has outsourced utility expertise to over 90 client organizations in 60 countries.

MHI was involved with numerous overseas initiatives this fiscal year, including working with the South Eastern Europe Electrical System - an undertaking designed to improve operational efficiencies of hydroelectric utilities in the Balkan States. MHI's successful public safety and awareness program in Moldova continued, which has dramatically reduced the incidence of public injuries and fatalities - particularly with children.

With a long history of involvement with African energy projects, MHI is again engaged in providing expertise on billing, metering, collections, and customer service in West African cities such as Aba and Kano in Nigeria. In East Africa, MHI has been hired by the Artumas Group, a Canadian natural gas development company, to manage the gas-to-power project in the southern Tanzania regions of Mtwara and Lindi.

In India, a consortium that includes SNC-Lavalin, CIDA, and MHI, provided assistance to the state of Madhya Pradesh through the Energy Infrastructure Services Project.

Manitoba HVDC Research Centre

The Manitoba High Voltage Direct Current (HVDC) Research Centre achieved several important milestones this year. Together with the University of Manitoba and RTDS Technologies Inc., the Centre was awarded the prestigious Natural Sciences and Engineering Research Council of Canada's 2005 Synergy Award for advances in power system simulation technologies. The subsidiary also released a full upgrade to its premiere software product: PSCAD, Version 4.2.

Manitoba Hydro Utility Services

Manitoba Hydro Utility Services (MHUS) achieves savings and synergies through integrated meter reading services and temporary resource placements. Synergies are realized by reading customers' electricity and natural gas meters simultaneously. Temporary resource placements provide the Corporation's districts and field operations departments with greater flexibility in acquiring staff to assist with peak workload requirements.

Meridium Power

Meridium Power continues to work actively to establish a Canadian market for Written-Pole® technology motors - a proprietary electric motor and generator technology. The technology, which extends the capabilities of electric motors and "battery-free" power protection products, was developed with assistance from Manitoba Hydro.

Corporate Governance

Manitoba Hydro's Board issues this Disclosure Statement on an annual basis in its Annual Report. A Disclosure Statement is mandatory for companies whose shares are publicly traded so that shareholders can assess the company's governance. Although not mandatory for Crown Corporations such as Manitoba Hydro, issuance of a Disclosure Statement is consistent with best practices for corporate governance.

Manitoba Hydro models its approach to corporate governance on emerging best practices in Canada, the United States, and Great Britain, including recommendations from bodies such as the Manitoba Crown Corporations Council, The Conference Board of Canada, and Canadian Security Administrators.

The following summarizes Manitoba Hydro's approach:

Strategic Planning
The Board sits as the planning committee for the Corporation and approves the Corporate Strategic Plan each year.

Succession Planning
The Human Resources Committee of the Board has responsibility for succession planning.

Financial Forecasting
The Audit Committee of the Board reviews the Corporation's Integrated Financial Forecast and makes recommendations to the Board.

Risk Management
The Audit Committee of the Board reviews the integrated risk management plan developed and maintained by the Corporation and makes recommendations to the Board.

Internal Controls
The Audit Committee of the Board meets at least four times per year and obtains opinions from external auditors, internal auditors, and management on the quality of internal controls.

Certifications
The Board ensures that certifications with respect to the accuracy of financial statements are provided by the CEO and CFO.

Legal Compliance
The Board reviews the Corporation's systems for ensuring legal compliance.

Conflict of Interest
Conflict of Interest policies are in place for members of the Board, officers, and employees.

Director Orientation
Members of the Board receive orientation materials that are continually updated.

Ethics and Social Responsibility
The Board reviews the Corporation's Code of Ethics, and ethics and social responsibility are considered in Board decisions.

Disclosure Obligations
Minutes of Board meetings are public, the Corporation's Annual Report and quarterly financial statements are tabled in the Legislature, and the Corporation is reviewed by the Crown Corporations Council and by a committee of the Legislature.

Financial Review

Management Discussion and Analysis

The Management Discussion and Analysis (MD&A) reports on the financial results and operational performance of Manitoba Hydro for the year ended March 31, 2006. It should be read in conjunction with the consolidated financial statements and notes. The MD&A also provides an assessment of Corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which may cause actual results to differ from those anticipated. To the extent known to management, risks and uncertainties have been quantified within reasonable ranges of materiality.

As a provincially-owned Crown Corporation, Manitoba Hydro's mandate is to provide for a continuance of a supply of energy to meet the needs of Manitoba consumers in the most efficient, economic and environmentally sustainable manner. In fulfilling its mandate, Manitoba Hydro has established a number of goals with related measures and targets. In addition to a review of financial and operational performance for 2005-06, this MD&A reviews Manitoba Hydro's progress towards the attainment of Corporate goals.

FINANCIAL OVERVIEW

Net income from consolidated electricity and natural gas operations reached an all-time high of $415 million for the fiscal year ended March 31, 2006, compared to $136 million in the previous fiscal year. The record net income was attributable to exceptional water flow conditions on Manitoba's major river systems which resulted in record hydraulic generation. High demand and prices in export markets also contributed to record extraprovincial sales and profits.

The consolidated net income of $415 million for the 2006 fiscal year was comprised of a $420 million profit in the electricity sector and a $5 million loss in the natural gas sector. The loss in the gas sector was mainly due to decreased demand as a result of one of the mildest winters on record.

The following schedule provides the key financial and operational results for the electricity and natural gas sectors for the year ended March 31, 2006 compared to the previous fiscal year:

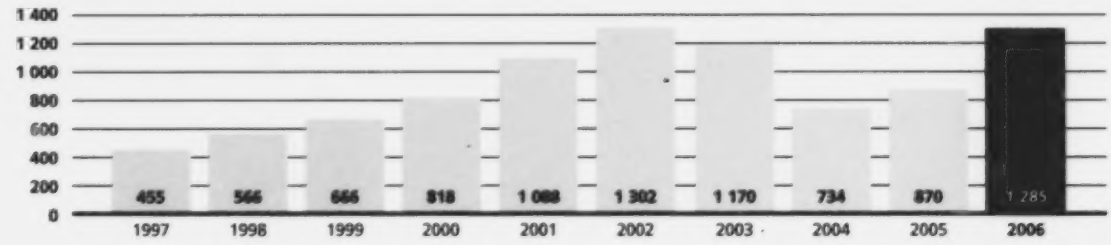
Financial and Operational Results
For the year ended March 31

	Electricity		Natural Gas		Consolidated	
	2006	2005	2006	2005	2006	2005
			dollars are in millions			
Revenues						
Manitoba (net of cost of gas sold)	1 001	954	120	125	1 121	1 079
Extraprovincial	881	554	–	–	881	554
	1 882	1 508	120	125	2 002	1 633
Expenses	1 462	1 370	125	127	1 587	1 497
Net income (loss)	420	138	(5)	(2)	415	136
Total assets	9 853	9 396	629	556	10 482	9 952
Total equity	1 265	845	20	25	1 285	870
Debt: Equity ratio					81:19	85:15
Interest coverage					1.77	1.25
Capital coverage					2.28	1.20
Number of customers	509 791	505 666	257 817	255 925		
GWh sold						
Domestic	19 976	19 781			19 976	19 781
Extraprovincial	13 706	8 213			13 706	8 213
Gas deliveries (millions of cubic metres)			1 980	2 157	1 980	2 157

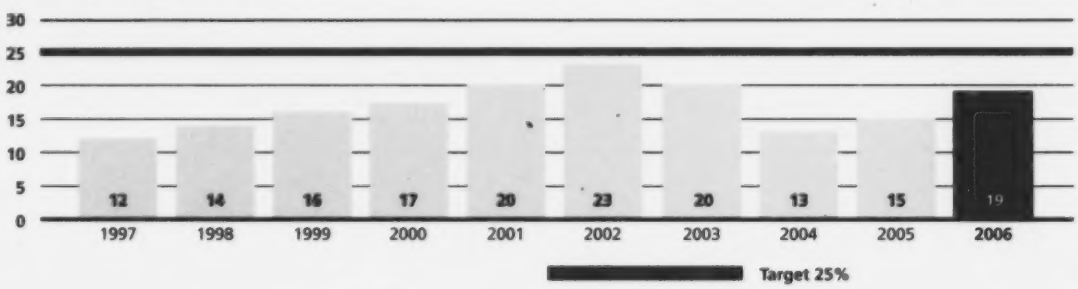
Management Discussion and Analysis

The significant improvement in net income has boosted retained earnings and equity ratios to close to historical peaks as indicated in the accompanying charts:

Retained Earnings
For the year ended March 31
millions of dollars



Equity Ratio
For the year ended March 31
Percentage of equity to total debt plus equity

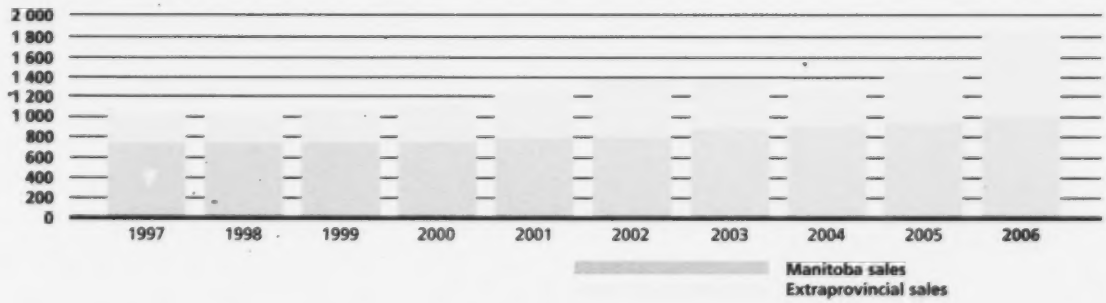


ELECTRICITY OPERATIONS

Revenues

Revenues in the electricity sector amounted to $1 882 million in 2005-06, an increase of $374 million or 24.8% higher than the previous year. Extraprovincial sales accounted for the largest portion of this increase reaching a record high of $881 million, $327 million higher than last year. Revenues from electricity sales in Manitoba attained a new plateau of $1.0 billion, an increase of $47 million or 4.9% over the previous year. The increase in domestic revenues was primarily due to the full year impact of a 5.0% rate increase implemented August 1, 2004 and a 2.25% rate increase implemented April 1, 2005.

Electricity Revenues
For the year ended March 31
millions of dollars



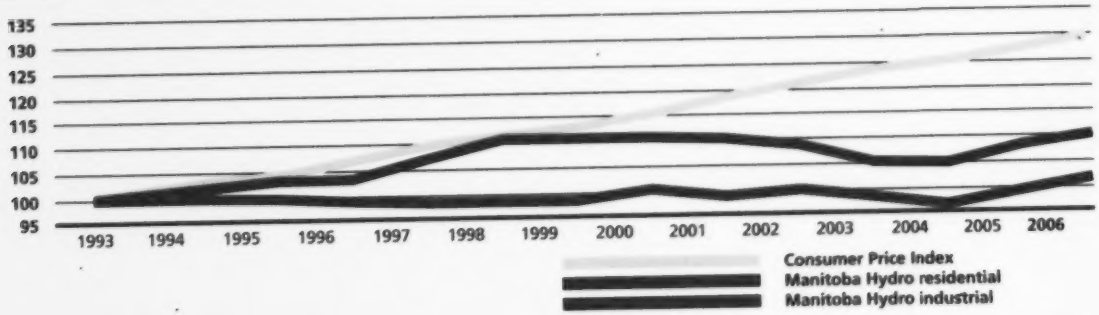
Management Discussion and Analysis

Due to the strong financial performance in 2005-06, Manitoba Hydro elected to forego a 2.25% electricity rate increase scheduled for implementation on October 1, 2005 and withdrew its application to the Public Utilities Board for a 2.50% rate increase proposed for April 1, 2006.

The following chart tracks the cumulative annual electricity rate changes compared to the consumer price index since 1992:

Annual Electricity Rate Changes vs Manitoba Consumer Price Index

(1992 = 100)

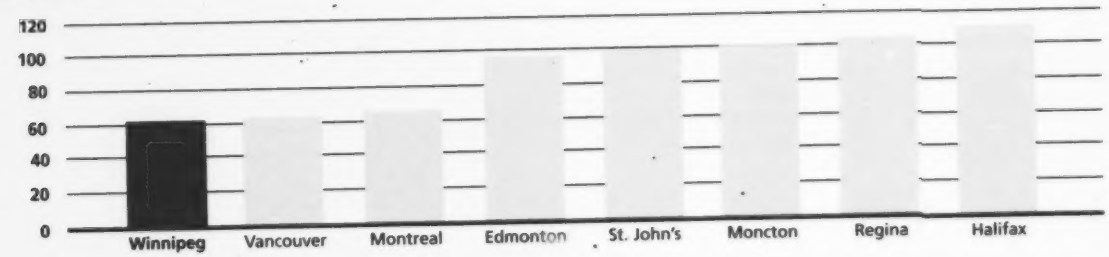


Manitoba Hydro continues to maintain its position of being the lowest cost provider of domestic electricity rates in Canada as indicated in the following charts:

Residential Electricity Bills

1 000 kWh per month

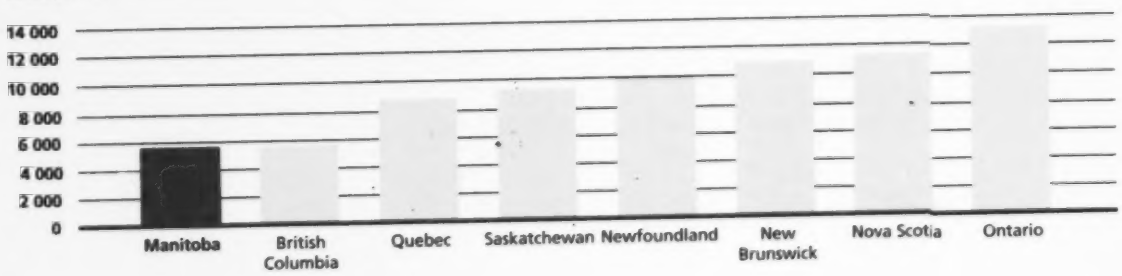
dollars per month



General Service Electricity Bills

300 kW and 120 000 kWh per month

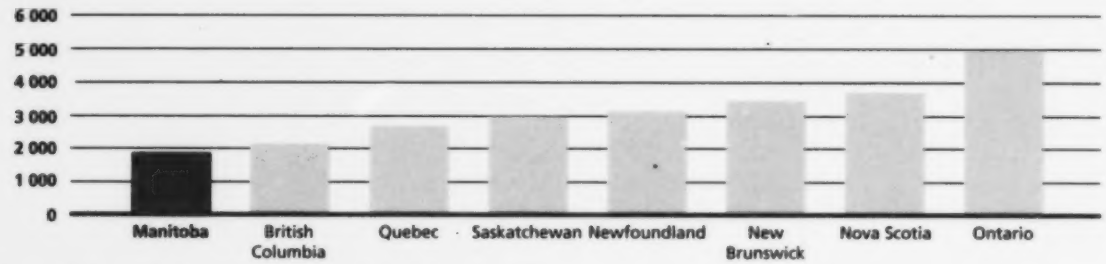
dollars per month



Management Discussion and Analysis

Industrial Electricity Bills

100 MW and 62 GWh per month
thousands of dollars per month



The breakdown of electricity sales in Manitoba by customer segment is as follows:

Manitoba Electricity Sales

For the year ended March 31

	2006	2005	% change	2006	2005	% change
	millions of dollars			*billions of kWh*		
Residential	388	380	2.1	6.3	6.4	(1.6)
General service	353	340	3.8	6.2	6.3	(1.6)
Industrial	245	227	7.9	7.4	7.1	4.2
Other revenue	15	8	–	–	–	–
	1 001	954	4.9	19.9	19.8	0.5

Manitoba kWh Consumption

For the year ended March 31, 2006

Manitoba Electricity Revenue

For the year ended March 31, 2006

In total, electricity consumption remained relatively unchanged in Manitoba during 2005-06 as 19.9 billion kilowatt-hours were consumed compared to 19.8 billion kilowatt-hours last year.

Revenue from sales to residential customers amounted to $388 million in 2005-06, an increase of $8 million compared to 2004-05. The number of residential customers increased by 3 530 during the year, and totaled 446 370 at March 31, 2006.

Revenue from general service customers totaled $353 million in 2006, an increase of $13 million compared to the previous year. The increase was mainly attributable to the rate increase effective April 1, 2005.

Revenue from large industrial customers increased $18 million to $245 million in 2005-06. The increase was primarily the result of production increases and plant expansions by several customers.

Extraprovincial revenues amounted to $881 million in 2005-06, an increase of $327 million or 59% higher than the previous year. The significant increase reflects the exceptional water flow conditions over the past year and the resulting large surplus of hydraulic generation available for sale on export markets. Of the total extraprovincial revenues, $708 million or 80% was derived from the U.S. market, while $173 million or 20% was from sales to Canadian markets.

Management Discussion and Analysis

Expenses attributable to electricity operations for 2005-06 were $1 462 million, an increase of $92 million or 6.7% from the previous fiscal year. The increase in expenses was largely due to increased fuel and power purchases of $44 million, an increase in water rentals of $20 million, additional operating and administrative costs of $14 million, and increased depreciation of $12 million. The increase in power purchases is attributable to power purchased extraprovincially for profitable resale opportunities in export markets. The increase in water rental costs is a direct result of increased hydraulic generation.

Electricity Expenses

For the year ended March 31

	2006	2005	% change
	millions of dollars		
Operating and administrative	322	308	4.5
Finance expense	468	468	–
Depreciation and amortization	301	289	4.2
Water rentals and assessments	131	111	18.0
Fuel and power purchased	179	135	32.6
Capital and other taxes	54	52	3.8
Corporate allocation	7	7	–
	1 462	1 370	6.7

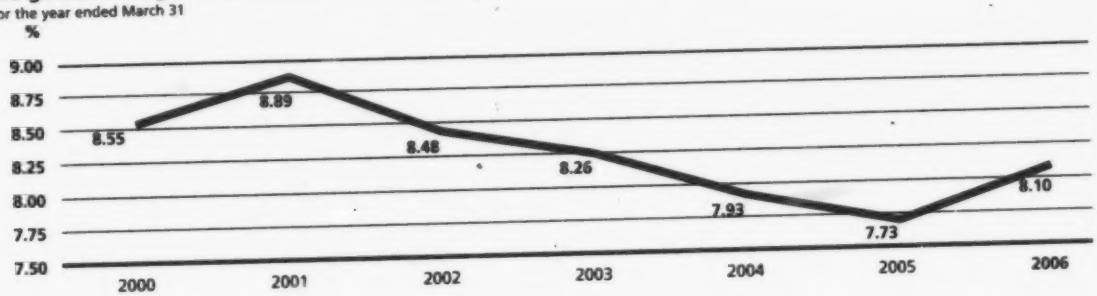
- Finance expense 32%
- Operating and administrative 22%
- Depreciation and amortization 21%
- Fuel and power purchased 12%
- Water rentals and assessments 9%
- Capital and other taxes 4%

Operating and administrative expenses amounted to $322 million in 2005-06, an increase of 4.5% or $14 million over 2004-05. The increase was mainly attributable to the costs of abnormally high storm activity during the year, higher uncollectible accounts, and greater maintenance requirements on the generation, transmission and distribution systems of the Corporation.

Finance expense totaled $468 million in 2005-06, unchanged compared to the previous year. Higher interest rates on floating rate debt compared to the previous year contributed to an increase in the Corporation's weighted average interest rate from 7.73% in 2005 to 8.10% in 2006, but higher interest rates were offset by a decrease in foreign exchange rates.

Weighted Average Interest Rate

For the year ended March 31



Management Discussion and Analysis

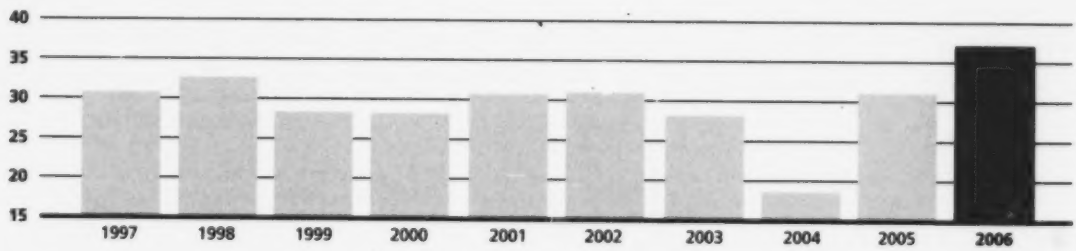
Depreciation expense totaled $301 million in 2005-06, an increase of $12 million or 4.2% over 2004-05. The increase was attributable to new additions to plant and equipment during the year.

Electricity Depreciation and Amortization
For the year ended March 31

	2006	2005	% change
	millions of dollars		
Generation	92	90	2.2
Transmission	10	10	–
Stations	66	60	10.0
Distribution	74	70	5.7
Other	59	59	–
	301	289	4.2

Water rentals are paid to the Province of Manitoba for the use of water resources by Manitoba Hydro in the operation of its hydroelectric generating stations. The $20 million increase in water rentals reflects higher water flows on Manitoba's major river systems and the resulting increase in hydraulic generation from 31.1 billion kilowatt-hours in 2004-05 to a record 37.2 billion kilowatt-hours in 2005-06.

Hydraulic Generation
For the year ended March 31
billions of kWh



Fuel and power purchased amounted to $179 million in 2005-06, an increase of $44 million or 32.6% over the previous year. The increase is mainly attributable to power purchased extraprovincially for profitable resale opportunities in the export market.

Management Discussion and Analysis

FINANCING

Cash provided from operations in 2005-06 was $710 million, a $277 million increase over the previous year. The increase was mainly due to higher cash receipts from export sales.

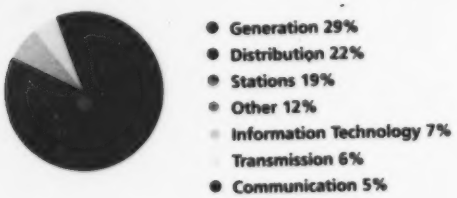
Proceeds from new financing arranged by the Corporation amounted to $180 million in 2005-06. These proceeds were used to repay short term notes, to fund HydroBond maturity and interest obligations, and to support new capital requirements during the year.

During 2005-06 the Corporation retired $110 million of debt comprised of HydroBonds of $107 million and Manitoba Hydro-Electric Board Bonds of $3 million.

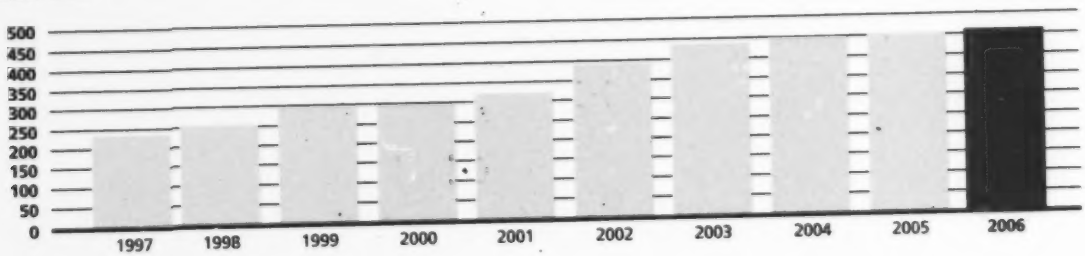
ELECTRICITY CAPITAL EXPENDITURES

Expenditures for capital construction totaled $462 million in 2005-06 compared to $464 million during the previous fiscal year. Generation capital expenditures of $133 million included $29 million for hydraulic generation system upgrades, including $18 million for Kelsey Generating Station. The Kelsey project consists of re-runnering of all units which will result in additional output of 84 MW upon completion. Also included in generation capital expenditures was $68 million related to future generation facilities. New transmission line and transmission upgrade projects totaled $29 million. Substation additions and upgrades were $88 million. Distribution system additions and modifications were $102 million to meet the service requirements of customers throughout the province. New information technology development was $34 million of which $11 million was expended during the year to complete the installation of a new Customer Information System. Expenditures on communication projects were $23 million, and the remaining capital expenditures of $53 million were for replacement of equipment and facilities.

Electricity Capital Expenditures
For the year ended March 31, 2006



Electricity Capital Expenditures
For the year ended March 31
millions of dollars



Management Discussion and Analysis

NATURAL GAS OPERATIONS

Centra Gas Manitoba Inc. (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 233 190 residential, and 24 627 commercial and industrial customers in Manitoba.

A net loss of $5 million was incurred in the natural gas sector in 2005-06 compared to a net loss of $2 million in the previous year. The net loss in 2005-06 was mainly attributable to decreased demand due to one of the mildest winters on record. This was partially offset by a 2.0% general rate increase implemented on February 1, 2005 resulting in an increase in revenues of $7 million compared to the prior year.

Revenues from the sale and distribution of natural gas during 2005-06 were $517 million, an increase of $8 million from the previous year. After deducting the cost of gas sold, which is a pass-through cost with no mark-up by Centra, net revenues amounted to $120 million, a decrease of $5 million from 2004-05. This reduction in net revenue is a reflection of warmer than normal weather and declining customer usage due to conservation. Natural gas deliveries were 1 980 million cubic metres in 2005-06 compared to 2 157 million cubic metres in 2004-05.

Natural Gas Revenue
For the year ended March 31

	2006	2005	% change
	millions of dollars		
Residential	275	282	(2.5)
Large general service	173	163	6.1
Large commercial and industrial	34	30	13.3
Interruptible	30	28	7.1
T-service and other	5	6	(16.7)
	517	509	1.6

Natural Gas Deliveries
For the year ended March 31

	2006	2005	% change
	millions of cubic metres		
Residential	665	786	(15.4)
Large general service	475	545	(12.8)
Large commercial and industrial	137	148	(7.4)
Interruptible	105	119	(11.8)
T-service and other	598	559	7.0
	1 980	2 157	(8.2)

Natural Gas Revenue
For the year ended March 31, 2006

- Residential 53%
- Large general service 33%
- Large commercial and industrial 7%
- Interruptible 6%
- T-service and other 1%

Natural Gas Deliveries
For the year ended March 31, 2006

- Residential 34%
- T-service and other 30%
- Large general service 24%
- Large commercial and industrial 7%
- Interruptible 5%

In accordance with Centra's normal rate setting methodology, natural gas rates are changed every quarter based on 12-month forward natural gas market prices. During the 2005-06 fiscal year, commodity rates passed through to natural gas residential customers increased from 25 cents per cubic metre at the beginning of the year to 32 cents per cubic metre at year end.

Management Discussion and Analysis

The following provides the annualized impacts to a typical residential customer resulting from all of the rate changes during the year:

- **May 1, 2005** **10.9% increase**
- **August 1, 2005** **2.7% increase**
- **November 1, 2005** **6.3% increase**
- **February 1, 2006** **0.3% increase**

Expenses related to the natural gas operations, excluding cost of gas sold, were $125 million in 2005-06, a decrease of $2 million from the prior year. Operating and administrative costs associated with the natural gas operations decreased by $2 million due to reduced marketing and expansion activity, and the realization of ongoing synergies with electricity operations. Depreciation and amortization decreased by $1 million over the prior year. These reductions were partially offset by an increase in finance expense of $1 million.

Natural Gas Expenses
For the year ended March 31

	2006	2005	% change
	millions of dollars		
Operating and administrative	53	55	(3.6)
Finance expense	18	17	5.9
Depreciation and amortization	19	20	(5.0)
Capital and other taxes	23	23	–
Corporate allocation	12	12	–
	125	127	(1.6)

Natural Gas Expenses
For the year ended March 31, 2006

- **Operating and administrative 43%**
- **Capital and other taxes 18%**
- **Depreciation and amortization 15%**
- **Finance expense 14%**
- **Corporate allocation 10%**

Centra purchased 888 million cubic metres of natural gas based on monthly Alberta indexed pricing and 333 million cubic metres under daily Alberta indexed pricing. Centra also delivered natural gas on behalf of brokers to 54 750 (2005 - 45 678) customers receiving natural gas under Direct Purchase arrangements.

Management Discussion and Analysis

NATURAL GAS CAPITAL EXPENDITURES

Capital expenditures in the natural gas sector were $27 million in 2005-06 compared to $23 million for the previous fiscal year. The capital expenditure program reflects the continuing growth in new business, system improvement and other expenditures to meet the needs of the existing customer base and to bring natural gas services to more Manitobans. In addition, expenditures were incurred for Power Smart programs developed to help natural gas customers reduce their energy consumption.

SUBSIDIARIES

In addition to Centra, the Corporation has a number of wholly-owned subsidiaries involved in energy-related business enterprises for purposes of enhancing stakeholder service and value. Four of the most significant operating subsidiaries are:

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro and other utilities.

Manitoba HVDC Research Centre Inc. (HVDC) provides research and development services and products to the electrical power system industry.

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships.

Meridium Power Inc. (MP) distributes motive power and power protection products, ranging from large horsepower single phase motors to battery-free power protection systems for industrial and commercial applications.

The following table outlines the revenues and expenses of the subsidiary companies that are included in the consolidated financial statements of Manitoba Hydro:

	MHUS	HVDC	MHI	MP	Total
			thousands of dollars		
Revenues	4 692	3 701	8 490	546	17 429
Expenses	4 554	3 483	8 113	1 378	17 528
Net income (loss)	138	218	377	(832)	(99)

The net loss incurred by Meridium Power (MP) was largely due to a provision for aged accounts receivable and the write-down of inventory.

Management Discussion and Analysis

CORPORATE GOALS

The Corporate Strategic Plan is built upon Manitoba Hydro's vision "to be the best utility in North America with respect to safety, rates, reliability, customer satisfaction and environmental management and to always be considerate of the needs of customers, employees and stakeholders." The following goals are among those that the Corporation strives to achieve in the pursuit of its Corporate vision:

Continuously Improve Safety in the Work Environment
Safety improvement is the Corporation's most important goal. Manitoba Hydro is committed to significantly improving its safety performance and is currently implementing a comprehensive safety management system for employees.

Provide Customers with Exceptional Value
Manitoba Hydro provides exceptional value to customers through low rates, public safety, service reliability and customer satisfaction.

Be a Leader in Strengthening Working Relationships with Aboriginal Peoples
Manitoba Hydro is one of the leading utilities in Canada with respect to Aboriginal representation in its workforce. The Corporation continues to place emphasis on building enduring working relationships with Aboriginal peoples.

Improve Corporate Financial Strength
The Corporation has three primary financial targets to enhance its financial strength, to contribute to rate stability and predictability, and to protect the Corporation and its customers from a variety of other risks. The financial targets are Interest Coverage, Capital Coverage and Debt/Equity.

Maximize Export Power Net Revenues
The ability to sell surplus energy into export markets has contributed significantly to low domestic rates in Manitoba. It is projected that export revenues will continue to be a significant proportion of Corporate revenues.

Have a Diverse Workforce that Reflects the Demographics of Manitoba
In addition to its leading performance in Aboriginal representation in the workforce, the Corporation has ambitious employment equity targets for other designated groups in Manitoba.

Be Proactive in Protecting the Environment
Through careful management of new and existing facilities and infrastructure, Manitoba Hydro continues to operate in an environmentally responsible manner. Manitoba Hydro is dedicated to sustainable development and protecting the environment.

Be a Leader in Implementing Energy Conservation Programs
Manitoba Hydro is recognized as a Canadian leader in promoting the wise and efficient use of energy through its Power Smart brand.

Management Discussion and Analysis

PERFORMANCE MEASURES

The following performance measures are among those utilized by the Corporation in measuring progress towards the achievement of its goals:

	Measure	Target	Performance
Safety in the Work Environment	High-risk accidents	0	23 accidents
	Accident severity rate (per 200 000 hours worked)	< 16 days	36.5 days
	Accident frequency rate (per 200 000 hours worked)	< 0.8 accidents	2.1 accidents
Exceptional Value for Customers	Retail electric rates	Lowest in Canada	Lowest in Canada
	Retail natural gas rates	Among the lowest in Canada	Mid-point in Canada
	Average electric customer outage time (per customer per year)	< 92 minutes	124.3 minutes
	Average electric customer outage frequency (per customer per year)	< 1.3 outages	1.5 outages
	CEA Customer Service Index	Best in Canada	Best in Canada
Working Relationships with Aboriginal Peoples	% Aboriginal employment Corporate	12% by 2007	11.5 %
	% Aboriginal employment Northern	37% by 2007	34.2%
Finance	Interest Coverage	> 1.20	1.77
	Capital Coverage	> 1.0	2.28
	Debt:Equity	75:25 by 2012	81:19
Maximizing Export Revenues	Net export revenue as a % of total electric revenue	40% by 2016	47%
Diverse Workforce	Women	26%	24.8%
	Persons with disabilities	4.6%	4.0%
	Visible minorities	4.0%	3.9%
	Aboriginal peoples	12%	11.5%
		all by 2007	
Protecting the Environment	Environmental component of CEA Customer Service Index	≥ 8.5	8.2
	Net Greenhouse Gas Emissions (6% below 1990 levels)	< 0.52 megatonnes	0.52 megatonnes
Energy Conservation	Energy saved	2 637 GWh per year by 2018	1 112 GWh
	Capacity saved	842 MW by 2018	459 MW

Management Discussion and Analysis

RISK MANAGEMENT

The principal risks and uncertainties facing Manitoba Hydro in the fulfillment of its mandate include: infrastructure security and reliability, water supply, energy market access, energy supply and demand, interest and foreign exchange rates, and the maintenance of strategic business relationships.

The Corporation manages these risks through a systematic, proactive and integrated process designed to balance the following objectives:

- identifying threats that affect the achievement of the Corporation's mission and mandate;
- mitigating the consequences of negative occurrences; and
- taking advantage of opportunities to provide benefits to all stakeholders.

All major risks are closely monitored and effectively managed by the Corporation through a systematic and coordinated process. A Risk Management Steering Committee coordinates risk management activities across the Corporation. Risk management activities include risk identification and assessment, risk monitoring, the establishment of risk tolerances, and risk mitigation. Each of the Corporation's subsidiaries is also required to complete a formal risk assessment and mitigation strategy.

All identified risks are assessed for potential impact using financial, safety, reliability, environment or customer value criteria. Risks are quantified within reasonable ranges of materiality and are summarized in the following table:

RISK	POTENTIAL RANGE
Infrastructure	Greater than $1.0 billion
Drought	Up to $2.0 billion
Loss of export markets	Greater than 30% of revenue
Interest rates	Up to $15 million
Foreign exchange rates	Up to $10 million

Manitoba Hydro has also developed a Corporate Emergency Response Plan to ensure effective and coordinated responses to emergencies or disasters. The Emergency Response Plan also ensures that there is appropriate communication and coordination with other public authorities and emergency measure organizations.

OUTLOOK

Manitoba Hydro is projecting that 2006-07 will be another favourable year for the Corporation. Current water reservoir conditions are excellent following the rapid spring thaw, although export prices will likely be lower than those experienced in the past year. The cost of natural gas, a major alternative supply source to electricity, has dropped from recent highs as the markets have recovered from last year's hurricane situation. Steady growth is projected in domestic electricity and gas requirements reflecting the Province's good economic performance. Subject to average or better water conditions prevailing in future years, and to annual domestic rate increases for electricity at close to the level of projected inflation, the financial strength of the Corporation is projected to continue to improve over the next number of years. As one of the leading providers of self-sustaining, low-cost energy in North America, Manitoba Hydro is well-positioned to provide increasing and enduring value to its Manitoba stakeholders through the goals identified in the Corporate Strategic Plan.

The Wuskwatim hydroelectric project is in the final phase of approvals. The partnership negotiations with Nisichawayasihk Cree Nation (NCN) were completed in March 2006 and the federal and provincial licenses and authorizations are expected to be issued in the spring/summer of 2006. The community will undergo an intense final consultation, with a membership referendum scheduled for June 2006. With a positive vote by the NCN membership, construction of the $1 billion generation station and associated transmission will commence. Evidence examined by the Clean Environment Commission in 2004 indicated that the Wuskwatim project will result in minimal flooding, will bring a range of benefits to local communities and will contribute to long-term Manitoba customer rate stability as a result of incremental export sales.

Management Discussion and Analysis

In October 2005, Manitoba and Ontario signed a Memorandum of Understanding to negotiate the transfer of clean, renewable hydro power from Manitoba to Ontario through the Clean Energy Transfer Initiative. The first phase of this initiative would see the sale of 400 MW over the existing, but upgraded, transmission facilities prior to 2012. The second phase would involve a larger and longer term 1 500 to 3 000 MW power sale over new transmission facilities linking the two provinces.

The 620 MW Keeyask Generating Station project continues to be examined, and negotiations on the Joint Keeyask Development Agreement are progressing between Manitoba Hydro and the four First Nation partners: Tataskweyak, War Lake, Fox Lake, and York Factory. It is anticipated that the agreement will be finalized during the 2007 fiscal year, setting the stage for future joint commitment to the Keeyask project based on an acceptable business case.

A new north-south HVDC transmission line is planned to improve system reliability and to enhance the flow of power from the northern Nelson River generating stations to the primary southern markets. Construction work is projected to start within a few years. Also planned is a major updating of the Pointe du Bois generating station on the Winnipeg River, the oldest facility in the Manitoba Hydro system.

GreenWing-Algonquin Power Development Inc. has completed construction of the privately funded St. Leon Wind Energy Project, which includes 63 wind turbines. The final units were commissioned in March 2006 and a commercial operation date during the summer of 2006 is anticipated. Manitoba Hydro has contracted to purchase this wind energy subject to the turbines' compliance with interconnection and operating criteria. Manitoba Hydro and the Province are currently analyzing the responses from an Expression of Interest to build additional wind farms in Manitoba. A development plan for more wind power could be initiated before the end of 2006.

Construction of Manitoba Hydro's head office building on Portage Avenue in downtown Winnipeg is well underway. By year end, work on the excavation and foundation was complete, over 50% of the geothermal field was installed, and concrete was being poured for the ground floor. The 22 storey, 690 000 square foot building will be one of the most energy efficient office towers in the world, using approximately 60% less energy than a similar sized conventional building. Completion of construction is scheduled for late 2007.

Manitoba Hydro's Power Smart initiative continues to grow with many new programs being launched. The Power Smart brand strengthens market awareness in Manitoba, influencing pricing and product availability for various energy efficient technologies within the Manitoba marketplace. These programs are expected to achieve projected energy and demand savings of 2 637 GWh/year and 842 MW by 2017-18. In May 2005, the Natural Gas Supplement to the Power Smart plan was released, targeting savings of 96 million cubic metres of natural gas to 2017-18. In aggregate, the Power Smart initiative is expected to result in carbon dioxide emission reductions of at least 1.3 million tonnes annually while providing Manitoba participants with lower energy bills as a result of selling the conserved hydraulic energy on the export market.

Manitoba Hydro projects that consolidated net income will exceed $200 million in 2006-07. Building upon past strengths and current opportunities, Manitoba Hydro is confident that substantial benefits to all stakeholders will continue to be realized in the years ahead.

Management Report

Management Report
For the year ended March 31

The accompanying consolidated financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 6, 2006. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

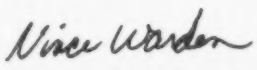
Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:

R. B. Brennan, FCA
President and Chief Executive Officer



V. A. Warden, CMA, FCMA
Vice-President
Finance and Administration and
Chief Financial Officer

Winnipeg, Canada
June 6, 2006

Auditors' Report

To the Board of Directors
Manitoba Hydro-Electric Board

We have audited the consolidated balance sheet of The Manitoba Hydro-Electric Board as at March 31, 2006 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada,
June 6, 2006

Consolidated Financial Statements

Consolidated Statement of Income

For the year ended March 31

		Notes	2006	2005
			millions of dollars	
Revenues				
Electric	Manitoba	2	1 001	954
	Extraprovincial		881	554
Gas	Commodity		397	384
	Distribution		120	125
			2 399	2 017
Cost of gas sold			397	384
			2 002	1 633
Expenses				
Operating and administrative			375	363
Finance expense		3	503	502
Depreciation and amortization			322	311
Water rentals and assessments		4	131	111
Fuel and power purchased			179	135
Capital and other taxes			77	75
			1 587	1 497
Net income			415	136

Consolidated Statement of Retained Earnings

For the year ended March 31

	2006	2005
	millions of dollars	
Retained earnings, beginning of year	870	734
Net income	415	136
Retained earnings, end of year	1 285	870

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

Consolidated Balance Sheet

As at March 31

	Notes	2006	2005
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	5	11 065	10 748
Less accumulated depreciation	5	3 657	3 447
		7 408	7 301
Construction in progress	5	602	475
		8 010	7 776
Current Assets			
Cash and cash equivalents		119	9
Accounts receivable and accrued revenue		421	409
Interest receivable		6	6
Materials and supplies, at average cost		159	84
		705	508
Other Assets and Deferred Charges			
Sinking fund investments	6	555	562
Pension assets	7	719	615
Deferred charges	8	385	383
Goodwill		108	108
		1 767	1 668
		10 482	9 952

Approved on behalf of the Board:

Victor H. Schroeder, QC
Chair of the Board

Carol Bellringer, CA, MBA
Chair of the Audit Committee

Consolidated Financial Statements

	Notes	2006	2005
		millions of dollars	
Liabilities and Retained Earnings			
Long-Term Debt			
Long-term debt net of sinking fund investments		6 496	6 486
Sinking fund investments shown as assets	6	555	562
	9	7 051	7 048
Current Liabilities			
Accounts payable and accrued liabilities	10	313	256
Notes payable	11	–	59
Accrued interest		110	106
Current portion of long-term debt	9	118	156
		541	577
Other Liabilities and Deferred Credits			
Deferred liabilities and credits	12	466	350
Pension obligation	7	606	568
Asset purchase obligation	13	236	243
Contributions in aid of construction		297	296
		1 605	1 457
Retained Earnings		1 285	870
		10 482	9 952

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the year ended March 31

	Notes	2006	2005
			millions of dollars
Operating Activities			
Cash receipts from customers		2 387	1 977
Cash paid to suppliers and employees		(1 180)	(1 044)
Interest paid		(530)	(529)
Interest received		33	29
		710	433
Financing Activities			
Proceeds from long-term debt		180	300
Sinking fund withdrawals		84	236
Retirement of long-term debt		(110)	(239)
Discount on long-term debt		–	(6)
Mitigation liability	16	(19)	(20)
Notes payable		(59)	(35)
Other		1	–
		77	236
Investing Activities			
Property, plant and equipment, net of contributions		(498)	(505)
Sinking fund payment		(103)	(100)
Other		(76)	(61)
		(677)	(666)
Net increase in cash		110	3
Cash at beginning of year		9	6
Cash at end of year		119	9

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include the financial statements of the Corporation and its subsidiaries. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process ensures that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. Accordingly, Manitoba Hydro applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise be included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets or liabilities which are generally comprised of the following:

- Deferred taxes - Taxes paid by Centra Gas (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.
- Acquisition costs - Costs associated with the acquisition of Centra Gas (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.
- Site Restoration Costs - Site restoration costs incurred are recorded as a deferred expense and are amortized on a straight-line basis over 15 years.
- Purchase Gas Variance Accounts (PGVA) - Accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/payable, and recovered or refunded in future rates.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**
Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Finance expense is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in service property, plant and equipment is made, finance expense allocated to construction ceases, and depreciation and finance expense charged to operations commences.

Notes to the Consolidated Financial Statements

b) **Depreciation**

Depreciation is provided on a straight-line remaining life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	- Hydraulic	45 - 100 years
	- Thermal	25 - 45 years
Transmission	- Lines	40 - 85 years
	- Stations	20 - 53 years
Distribution (Electricity and Gas)		20 - 65 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. In accordance with utility accounting practices, retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the Corporation.

c) **Asset Retirement Obligations**

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates except to the extent that revenues are used to hedge future long-term foreign debt obligations. In accordance with the Corporation's Exposure Management Program, revenues used as hedges are firm U.S. export revenues which are translated at the historical book value exchange rates of the respective U.S. debt obligations to which the firm revenues are linked and for which they, together, form an effective hedge. The maturity dates of U.S. debt obligations extend through 2023. For purposes of bridging the timing of U.S. debt maturities and the U.S. revenue streams used to hedge those debt maturities, the Corporation utilizes U.S. sinking funds and U.S. dollar foreign exchange contracts. The investment income from the U.S. sinking fund is retained within the Exposure Management Program to form part of the long-term debt obligation hedge.

Long term monetary assets and liabilities denominated in U.S. currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. The exchange gains or losses resulting from the translation of monetary items that form part of the long-term debt obligation hedge are deferred to the period in which the respective U.S. long-term debt obligation is retired.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

Notes to the Consolidated Financial Statements

e) **Employee Future Benefits**

Manitoba Hydro provides employee future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, three Centra Gas curtailed pension plans, and The Winnipeg Civic Employees' Benefits Board Program (EBBP).

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate assumptions of future compensation increases, service lives and inflation rates. Pension expense is comprised of the cost of pension benefits provided during the year plus the amortization of past service benefits and experience gains and losses net of expected returns on fund assets. Expected returns on fund assets are calculated using market related values based on a five year moving average approach. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as deferred assets or credits.

The Corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

All pension assets of Manitoba Hydro's Pension Fund are stated at current market value. Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the EBBP. The EBBP is a defined benefit pension plan with multiple participating employers.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the cost of these benefits is determined based on management's best estimate of economic and demographic assumptions.

f) **Debt Discounts and Premiums**

Debt discounts and premiums are amortized to finance expense on a straight-line basis over the life of the respective debt.

g) **Sinking Fund Investments**

The Corporation records sinking fund investments at par value. The difference between the cost and the par value of each investment is recorded as a premium or discount and is amortized on a straight-line basis over the remaining life of the investment. Any gain or loss on early disposal of investments is credited or charged to investment income.

h) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i) **Planning Studies**

The costs of planning studies related to uncommitted major generation or transmission facilities are deferred and amortized on a straight-line basis over 15 years. If there is reasonable assurance that a project will proceed to construction, any unamortized balance related to that project is transferred to construction in progress.

j) **Power Smart programs**

The costs of the Corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 15 years.

Notes to the Consolidated Financial Statements

k) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

l) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

m) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.

n) **Derivative Financial Instruments**
The Corporation mitigates natural gas price volatility to customers through the use of derivative products restricted to price swaps, call options and cashless collars. The Corporation hedges up to 100% of its primary gas baseload volumes for up to twelve (12) months into the future. A stringent control environment is maintained to manage any risks related to the application of derivatives. Amounts paid or received under derivative financial instruments are recognized as part of the cost of gas sold.

o) **Goodwill**
Goodwill represents the amount of the Corporation's investments in Centra Gas and Winnipeg Hydro over and above the fair market value of the net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the Corporation's investments in Centra Gas or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.

p) **Use of Estimates**
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 EXTRAPROVINCIAL REVENUES

	2006	2005
	millions of dollars	
United States	708	476
Canada	173	78
	881	554

For U.S. revenues used as a hedge of U.S. long-term debt, the effective exchange rate for translation was $1.00 U.S. = $1.232 Canadian (2005 - $1.00 U.S. = $1.232 Canadian). All other U.S. revenues were translated at an effective exchange rate of $1.00 U.S. = $1.1905 Canadian (2005 - $1.00 U.S. = $1.2745 Canadian).

Notes to the Consolidated Financial Statements

NOTE 3 FINANCE EXPENSE

	2006	2005
	millions of dollars	
Interest on debt	569	561
Interest allocated to construction	(33)	(31)
Investment income	(33)	(28)
	503	502

Included in interest on debt is $68 million (2005 - $70 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 0.95% of the total outstanding debt guaranteed by the Province (2005 - 0.95%).

Investment income includes interest earned on U.S. and Canadian sinking funds established for the retirement of long-term debt. U.S. sinking fund interest income designated as a hedge of U.S. denominated long-term debt is recorded at the historical book value rate of the associated debt. The effective exchange rate for translation of this interest income is $1.00 U.S. = $1.232 Canadian (2005 - $1.00 U.S. = $1.232 Canadian).

NOTE 4 WATER RENTALS AND ASSESSMENTS

	2006	2005
	millions of dollars	
Water rentals	124	104
Assessments	7	7
	131	111

Water rentals are paid to the Province for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2005 - $3.34 per MWh).

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
	millions of dollars					
	In Service	Accumulated Depreciation	Construction in Progress	In Service	Accumulated Depreciation	Construction in Progress
Generation						
- Hydraulic	4 334	1 285	353	4 264	1 224	283
- Thermal	494	202	4	481	184	10
Transmission						
- Lines	745	225	53	737	214	24
- Stations	2 094	829	83	2 002	778	91
Distribution	2 407	777	18	2 287	704	22
Other	991	339	91	977	343	45
	11 065	3 657	602	10 748	3 447	475

Notes to the Consolidated Financial Statements

NOTE 6 SINKING FUND INVESTMENTS

As provided by The Manitoba Hydro Act, the Corporation pays an annual sinking fund installment to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $103 million (2005 - $100 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2006	2005
	millions of dollars	
Canadian investments	–	81
U.S. investments	555	481
	555	562

U.S. investments have a weighted average term to maturity of 4.8 years (2005 - 5.5 years) and an effective yield to maturity of 4.1% (2005 - 4.3%). U.S. investments are translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.17 Canadian (2005 - $1.00 U.S. = $ 1.21 Canadian).

NOTE 7 PENSION ASSETS AND OBLIGATION

Manitoba Hydro employees are eligible for pensions under the Civil Service Superannuation Board (CSSB) defined benefit plan that provides pension benefits based on years of service and on the average earnings of the 5 best years. The CSSB plan requires the Corporation to contribute 50% of the pension disbursements made to retired employees. In addition, the former employees of Centra Gas are entitled to pension benefits earned under the Centra Gas curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the City of Winnipeg Civic Employees' Benefit Board Program (the EBBP) in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The EBBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the 5 best years.

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB plan		Centra Gas curtailed pension plans	
	2006	2005	2006	2005
		millions of dollars		
Current service cost	18	17	–	–
Administrative fee	2	1	–	–
Canada Pension Plan	10	9	–	–
Interest on obligation	39	36	4	4
Expected return on plan assets	(45)	(41)	(4)	(4)
Amortization of net experience loss	3	2	1	1
Amortization of transitional loss (gain)	(1)	(1)	–	–
	26	23	1	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the EBBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the EBBP during the year amounted to $0.3 million (2005 - $0.4 million) and reflect an employer contribution rate approximating 1.3% of pensionable earnings.

Notes to the Consolidated Financial Statements

The most recent actuarial valuations for the Corporation's obligations under the CSSB and Centra Gas curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2005. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans will occur in December 2006.

The Centra Gas curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2005.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2006	2005
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	2.0 - 2.5%
Expected average remaining service life of employees	14 years	14 years
Long-term inflation rate	2.0%	2.0%

The Corporation fully funds its pension obligation to employees. The CSSB manages the Corporation's pension fund (MH Pension Fund) on behalf of the Corporation.

The following tables present information concerning the MH Pension Fund and the Centra Gas curtailed pension plans:

	CSSB plan		Centra Gas curtailed pension plans	
	2006	2005	2006	2005
	millions of dollars			
Plan Assets at Fair Value				
Balance at beginning of year	615	556	59	53
Actual return on plan assets	104	59	9	5
Employer contributions	–	–	3	4
Benefit payments and refunds	–	–	(3)	(3)
	719	615	68	59
Accrued Benefit Obligation				
Balance at beginning of year	568	514	71	66
Interest on obligation	39	36	5	5
Current service cost	18	17	–	–
Benefit payments and refunds	(25)	(22)	(3)	(3)
Actuarial losses	6	23	–	3
	606	568	73	71
Surplus (deficit) at end of year	113	47	(5)	(12)

Notes to the Consolidated Financial Statements

Pension assets are valued at market rates and are invested as follows:

	CSSB pension fund Fair Value		Centra Gas curtailed pension plans Fair Value	
	2006	2005	2006	2005
		millions of dollars		
Bonds and debentures	229	240	23	23
Equities	410	303	42	31
Short-term investments	20	24	1	4
Real estate	60	48	2	1
	719	615	68	59

The return on pension fund assets for the CSSB pension fund was 17.0% (2005 - 10.7%). The return for the Centra Gas curtailed plan fund assets was 16.4% (2005 - 10.0%).

The weighted average term to maturity on fixed income investments is 8.2 years (2005 - 7.6 years).

NOTE 8 DEFERRED CHARGES

	2006	2005
		millions of dollars
Debt discount and expense	8	1
Premium on purchase of sinking fund investments	23	20
Power Smart programs	99	76
Planning studies	63	45
Employee future benefits	25	81
Contract receivables	51	43
Regulated assets:		
Deferred taxes	41	43
Acquisition costs	26	25
Site restoration costs	31	25
Other	18	24
	385	383

If the Corporation were not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2006 would have been reduced by $5 million (2005 - $4 million).

In total, deferred charges of $46 million (2005 - $45 million) were amortized to operations during the period.

Notes to the Consolidated Financial Statements

NOTE 9 LONG-TERM DEBT

In 2006, the Corporation arranged long-term Provincial advances in the principal amount of $180 million with a fixed coupon rate of 4.45% (2005 - $300 million).

	2006	2005
	millions of dollars	
Advances from the Province of Manitoba represented by debenture debt of the Province	6 625	6 548
Manitoba HydroBonds	347	454
Manitoba Hydro-Electric Board Bonds	197	202
	7 169	7 204
Less: Current portion of long-term debt	118	156
	7 051	7 048

Included in the current portion of long-term debt are $106 million (2005 - $136 million) of debt maturities and $12 million (2005 - $20 million) of floating-rate Manitoba HydroBonds with a maturity date in 2008. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt, excluding Manitoba Hydro-Electric Board Bonds issued for mitigation projects in the amount of $50 million (2005 - $50 million), is guaranteed by the Province of Manitoba.

Debt principal amounts and related yields are summarized by fiscal years of maturity in the following table:

					2006	2005
	millions of Canadian dollars					
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2007	118	3.7%	–	–	118	72
2008	264	5.6%	–	–	264	294
2009	–	–	288	5.9%	288	298
2010	158	5.6%	288	5.4%	446	458
2011	4	4.1%	–	–	4	–
	544	5.4%	576	5.6%	1 120	1 122
2012-2016	862	5.0%	395	7.0%	1 257	1 372
2017-2044	2 925	7.3%	1 867	7.5%	4 792	4 554
	4 331	7.0%	2 838	7.4%	7 169	7 048

U.S. debt is translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.17 Canadian (2005 - $1.00 U.S. = $1.21 Canadian).

NOTE 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
	millions of dollars	
Accounts payable	272	230
Regulated liabilities:		
Purchased gas variance accounts	41	26
	313	256

The Corporation passes all costs related to the purchase and transportation of natural gas onto its customers without markup. If the Corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. For 2006, if actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have increased by $15 million (2005 - $14 million).

Notes to the Consolidated Financial Statements

NOTE 11 NOTES PAYABLE

The Corporation has bank credit facilities that provide for overdrafts and notes payable up to an amount of $500 million denominated in Canadian and/or U.S. currency. At March 31, 2006, there were no overdrafts or notes payable (2005 - $59 million).

NOTE 12 DEFERRED LIABILITIES AND CREDITS

	2006	2005
	millions of dollars	
Deferred foreign exchange	127	45
Mitigation liability (Note 16)	121	104
Employee future benefits, excluding pensions	112	105
Refundable advances from customers	30	27
Asset retirement obligations	29	31
Interest income and other credits	47	38
	466	350

Asset retirement obligations have been recognized for the decommissioning of the Corporation's two thermal generating stations, and for the removal and disposal of polychlorinated biphenyl contaminated fluid in HVDC converter station capacitors. The Corporation estimates that the undiscounted cash flows required to settle the asset retirement obligations are approximately $64 million, $18 million of which will be incurred between 2006 - 2009 for polychlorinated biphenyl contaminated oil removal and disposal. The balance of $46 million is expected to be incurred in 2024 as part of the decommissioning of Manitoba Hydro's two thermal generating stations. A discount rate of 6.75% was used to calculate the carrying value of the obligations. No funds are being set aside to settle the asset retirement obligations.

NOTE 13 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the Corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The Asset Purchase Obligation represents the net present value of payments to the City of Winnipeg of $25 million in 2006, $20 million per annum in years 2007 to 2010, and $16 million per annum in year 2011 and each year thereafter in perpetuity.

NOTE 14 FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The Corporation has entered into cashless collar contracts until January 2007 to purchase 23 435 000 gigajoules (gj) of natural gas at a weighted average lower strike price of $8.91/gj. The weighted average forward price per the Alberta Energy Company Exchange (AECO) at March 31, 2006 was $7.85/gj.

These contracts will be recorded in the month the natural gas is delivered. At March 31, 2006, the valuation of these contracts showed a negative fair value of $25 million (2005 - positive fair value of $22 million). There were no unrecognized financial liabilities relative to these contracts.

Fair Value

The estimated fair values of the Corporation's long-term debt and sinking fund investments are based on year-end market interest and exchange rates for similar debt and investment instruments. As at March 31, 2006, the estimated fair value of the Corporation's total long-term debt amounted to $8 733 million (2005 - $8 843 million). The estimated fair value of sinking fund investments, which the Corporation uses for the purpose of repaying long-term debt, amounted to $565 million at March 31, 2006 (2005 - $584 million).

The carrying values of all other financial assets and liabilities approximate fair value.

Notes to the Consolidated Financial Statements

Foreign Exchange Risk
As at March 31, 2006, there were foreign exchange contract purchases of $193 million U.S. at a weighted average exchange rate of $1.15 (2005 - $16 million U.S. at a weighted average exchange rate of $1.21) and £4 million U.K. at a weighted average exchange rate of $2.17 (2005 - £6 million U.K. at a weighted average exchange rate of $2.24) and no foreign exchange contract sales (2005 - $9 million U.S. at a weighted average exchange rate of $1.21). At March 31, 2006 the valuation of the foreign exchange contracts showed a positive fair value of $2 million (2005 - $0 million).

Cross currency swap arrangements transacted by the Province of Manitoba (the Province) on the Corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favorable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province with the swapped debt arrangement.

Interest Rate Risk
Interest rate risk is associated with notes payable net of temporary investments, the current portion of long-term debt net of the current portion of sinking fund investments, and floating rate long-term debt which totaled $1 074 million at March 31, 2006 (2005 - $1 345 million). For information purposes, an increase of 1% in the interest rate would reduce net income by $11 million for March 31, 2006 (2005 - $13 million).

Interest rate swap agreements transacted by the Province on the Corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure, and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which the payments are based. The Province may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province to the Corporation are amended by the swap.

Credit Risk
Credit risk on sinking fund investments, pension assets, and short-term investments is minimized as the Corporation invests exclusively in government-guaranteed bonds, highly rated investments or well diversified investment portfolios. The majority of the Corporation's accounts receivable are owing from domestic consumers who are in diversified industries and from sales to other utilities. Credit risk in the export market is minimized through the application of established credit requirements.

Credit risk associated with counterparties is minimized by establishing minimum credit rating requirements, setting potential exposure limits and monitoring exposure against these limits, and when necessary, obtaining financial assurances from counterparties.

NOTE 15 COMMITMENTS AND CONTINGENCIES

Outstanding commitments, principally for construction, are approximately $98 million (2005 - $131 million).

The Corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities, and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as Asset Retirement Obligations), a contingent liability exists.

Manitoba Hydro has energy purchase commitments of $682 million that relate to future purchases of natural gas (including transportation and storage contracts), coal and wind energy. Commitments are primarily for natural gas purchases, the majority of which expire in 2007.

Due to the size, complexity, and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Manitoba Hydro's consolidated financial position or results of operations.

Notes to the Consolidated Financial Statements

NOTE 16 MITIGATION

The Corporation is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba, and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects. Comprehensive settlements have been reached with all communities except Cross Lake.

The Corporation has also entered into agreements with the Province of Manitoba whereby the Corporation has assumed obligations of the Province with respect to certain northern development projects. The Corporation has assumed obligations totaling $143 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2006 amounted to $17 million (2005 - $20 million). In addition, the Corporation has entered into other agreements to provide compensation for impacts related to its development projects.

In total, expenditures incurred or settlements reached to mitigate the impacts of all projects amounted to $28 million during the year (2005 - $31 million). To March 31, 2006, $599 million (2005 - $571 million) has been recorded to mitigate and compensate for all project-related impacts.

In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $121 million (2005 - $104 million). There are other mitigation issues, the outcomes of which are not determinable at this time. However, in total, such other mitigation issues are not considered to be significant.

NOTE 17 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments; electricity and natural gas. Each segment has its own particular economic characteristics and differs in nature, production processes, and technology. The electricity segment encompasses the generation, transmission, and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The Corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

Notes to the Consolidated Financial Statements

The following table contains information related to the operating results, assets, liabilities, and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
				millions of dollars				
Revenues (net of cost of gas sold)	1 882	1 508	120	125	–	–	2 002	1 633
Expenses								
Operating and administrative	322	308	53	55	–	–	375	363
Finance expense	468	468	18	17	17	17	503	502
Depreciation and amortization	301	289	19	20	2	2	322	311
Water rentals and assessments	131	111	–	–	–	–	131	111
Fuel and power purchased	179	135	–	–	–	–	179	135
Capital and other taxes	54	52	23	23	–	–	77	75
Corporate allocation	7	7	12	12	(19)	(19)	–	–
	1 462	1 370	125	127	–	–	1 587	1 497
Net income (loss)	420	138	(5)	(2)	–	–	415	136
Total assets	9 853	9 396	629	556	–	–	10 482	9 952
Total liabilities	8 588	8 551	609	531	–	–	9 197	9 082
Total retained earnings	1 265	845	20	25	–	–	1 285	870

NOTE 18 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2005 have been reclassified in order to conform to the presentation adopted in 2006.

Financial Statistics

For the year ended March 31

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
					millions of dollars					
Revenues										
Electrical:										
Residential	387	386	368	354	314	320	300	300	299	312
General Service	597	553	550	521	472	461	437	448	440	438
Extraprovincial	881	554	351	463	588	480	376	326	297	268
Other Revenue	17	15	18	16	11	8	9	6	5	6
Gas:										
Residential	245	244	235	247	225	240	137	–	–	–
Commercial / Industrial	267	258	252	261	248	259	130	–	–	–
Transportation	3	5	4	4	4	2	1	–	–	–
Other Revenue	2	2	3	3	2	3	1	–	–	–
	2 399	2 017	1 781	1 869	1 864	1 773	1 391	1 080	1 041	1 024
Expenses										
Operating and Administrative	375	363	346	326	298	285	269	223	213	226
Finance Expense	503	502	487	479	482	420	419	411	419	418
Depreciation and Amortization	322	311	296	281	260	249	227	198	191	178
Water Rentals	131	111	71	103	113	56	51	50	56	51
Fuel and Power Purchased	179	135	569	151	71	48	33	59	14	13
Capital and Other Taxes	77	75	73	66	61	61	58	39	37	37
Cost of Gas Sold	397	384	375	392	365	384	182	–	–	–
	1 984	1 881	2 217	1 798	1 650	1 503	1 239	980	930	923
Net Income	415	136	(436)	71	214	270	152	100	111	101
Assets										
Property, Plant and Equipment	11 065	10 748	10 399	9 991	9 072	8 762	8 454	7 815	7 441	7 089
Less Accumulated Depreciation	3 657	3 447	3 241	3 042	2 834	2 609	2 407	2 217	2 054	1 899
Construction in Progress	602	475	378	356	388	275	188	176	221	274
Sinking Fund Investments	555	562	715	948	1 515	1 350	1 282	1 111	988	637
Current and Other Assets	1 917	1 614	1 652	1 981	2 264	2 188	1 175	981	1 021	1 032
	10 482	9 952	9 903	10 234	10 405	9 966	8 692	7 866	7 617	7 133
Liabilities and Retained Earnings										
Long-Term Debt	7 051	7 048	7 114	6 925	7 123	6 968	6 611	5 883	5 548	4 246
Current and Other	1 849	1 738	1 781	1 875	1 699	1 629	988	1 050	1 242	2 241
Contributions in Aid of Construction	297	296	274	264	281	281	275	267	261	191
Retained Earnings	1 285	870	734	1 170	1 302	1 088	818	666	566	455
	10 482	9 952	9 903	10 234	10 405	9 966	8 692	7 866	7 617	7 133
Cash Flows										
Operating Activities	710	433	(127)	432	554	334	374	366	297	273
Financing Activities	77	236	753	213	100	170	440	64	262	256
Investing Activities	677	666	650	629	638	521	856	507	532	455
Financial Indicators										
Interest Coverage[1]	1.77	1.25	0.17	1.14	1.42	1.62	1.35	1.23	1.25	1.23
Debt Ratio[2]	0.81	0.85	0.87	0.80	0.77	0.80	0.83	0.84	0.86	0.88
Capital Coverage[3]	2.28	1.20	(0.32)	1.10	1.67	1.18	1.28	1.22	1.13	1.12

[1] Interest Coverage represents net income plus interest on debt divided by interest on debt.
[2] Debt Ratio represents debt (long-term debt plus notes payable minus temporary investments) divided by debt plus retained earnings plus contributions in aid of construction.
[3] Capital Coverage represents internally generated funds divided by capital construction expenditures.

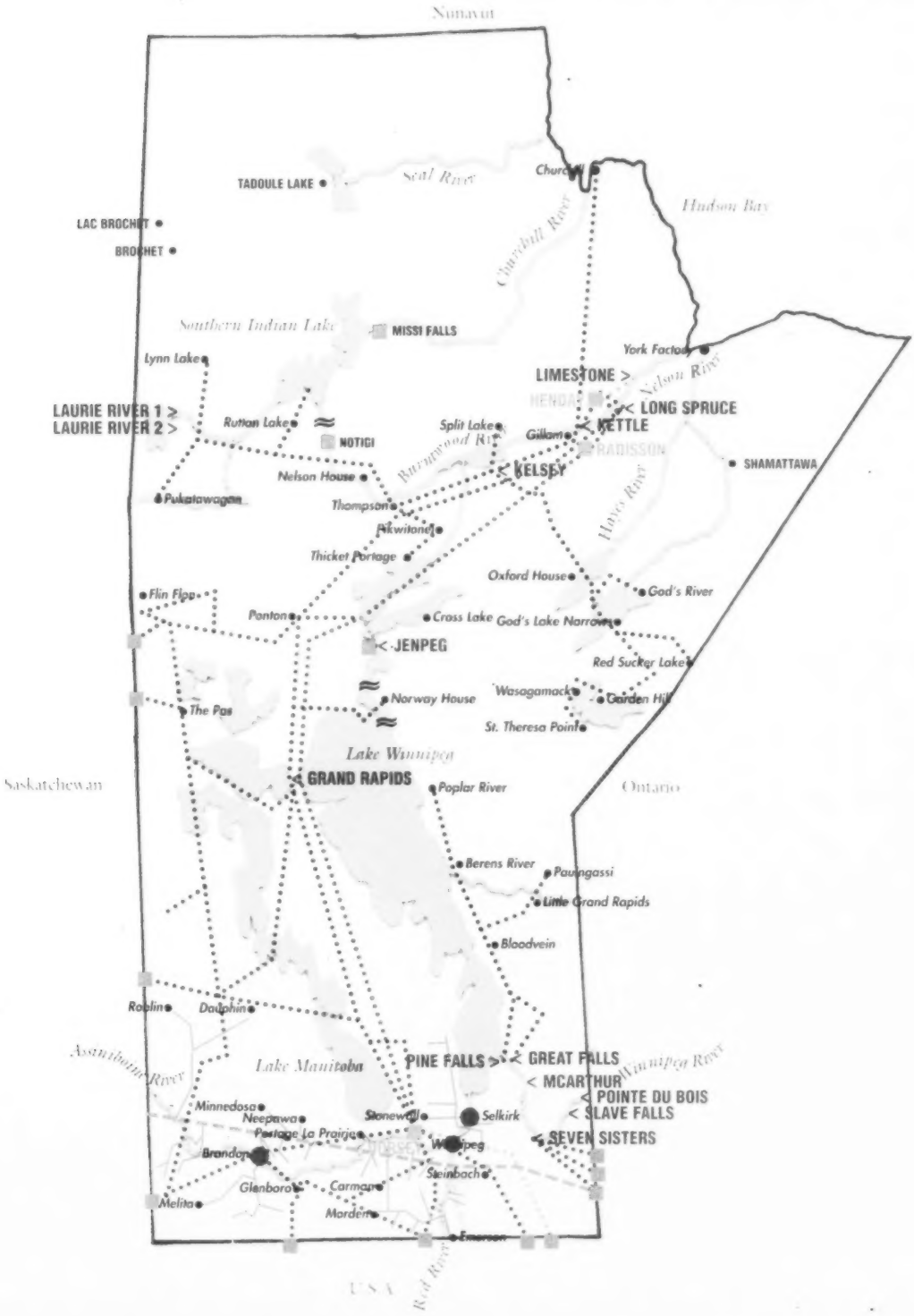
Operating Statistics

For the year ended March 31

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Manitoba										
System Capability										
Capability (000 kW)	5 469	5 470	5 471	5 464	5 230	5 210	5 116	5 137	5 137	5 343
Manitoba Firm Peak Demand (000 kW)	4 054	4 169	3 959	3 916	3 760	3 637	3 524	3 559	3 490	3 409
Percentage Change	(2.8)	5.3	1.1	4.1	3.4	3.2	(1.0)	2.0	2.4	(5.0)
System Supply										
Total Energy Supplied (000 000 kWh)										
Generation	37 620	31 543	19 338	29 167	32 633	32 687	30 146	30 043	34 032	31 842
Isolated System	12	11	11	11	10	10	9	17	28	35
	37 632	31 554	19 349	29 178	32 643	32 697	30 155	30 060	34 060	31 877
Load at Generation (000 000 kWh)										
Integrated System	22 655	22 452	21 907	21 965	20 519	20 123	19 101	19 398	19 095	19 249
Isolated System	12	11	11	11	10	10	9	17	28	35
	22 667	22 463	21 918	21 976	20 529	20 133	19 110	19 415	19 123	19 284
Percent Change	0.9	2.5	(0.3)	7.0	2.0	5.4	(1.6)	1.5	(0.8)	1.2
System Demand										
Energy Delivered (000 000 kWh)										
Residential	6 266	6 370	6 266	6 135	5 206	5 282	4 928	4 947	4 937	5 340
General Service	13 710	13 411	13 057	12 818	11 752	11 416	10 892	11 384	11 012	10 784
Manitoba	19 976	19 781	19 323	18 953	16 958	16 698	15 820	16 331	15 949	16 124
Net Metered Interchange (+Exports - Imports)	13 706	8 213	(2 578)	6 378	10 911	11 247	9 906	9 469	13 399	11 330
Gas Deliveries (millions of cubic metres)										
Residential	579	681	653	714	645	699	626	–	–	–
Commercial / Industrial	803	917	893	980	899	974	887	–	–	–
Transportation	598	559	577	640	502	501	530	–	–	–
	1 980	2 157	2 123	2 334	2 046	2 174	2 043	–	–	–
Number of Customers										
Electric:										
Residential	446 370	442 840	438 953	435 507	355 473	353 297	352 618	349 710	345 847	343 197
General Service	63 421	62 826	62 697	62 218	50 062	49 743	49 405	49 153	48 481	48 204
	509 791	505 666	501 650	497 725	405 535	403 040	402 023	398 863	394 328	391 401
Gas:										
Residential	233 190	231 366	229 194	227 071	225 258	224 020	222 110	–	–	–
Commercial / Industrial	24 627	24 559	24 437	24 202	24 093	24 054	23 651	–	–	–
	257 817	255 925	253 631	251 273	249 351	248 074	245 761	–	–	–
Number of Employees										
Regular	4 409	4 386	4 389	4 399	3 862	3 904	3 806	3 277	3 113	3 021
Construction	1 154	1 098	1 006	966	899	797	866	836	868	905
	5 563	5 484	5 395	5 365	4 761	4 701	4 672	4 113	3 981	3 926

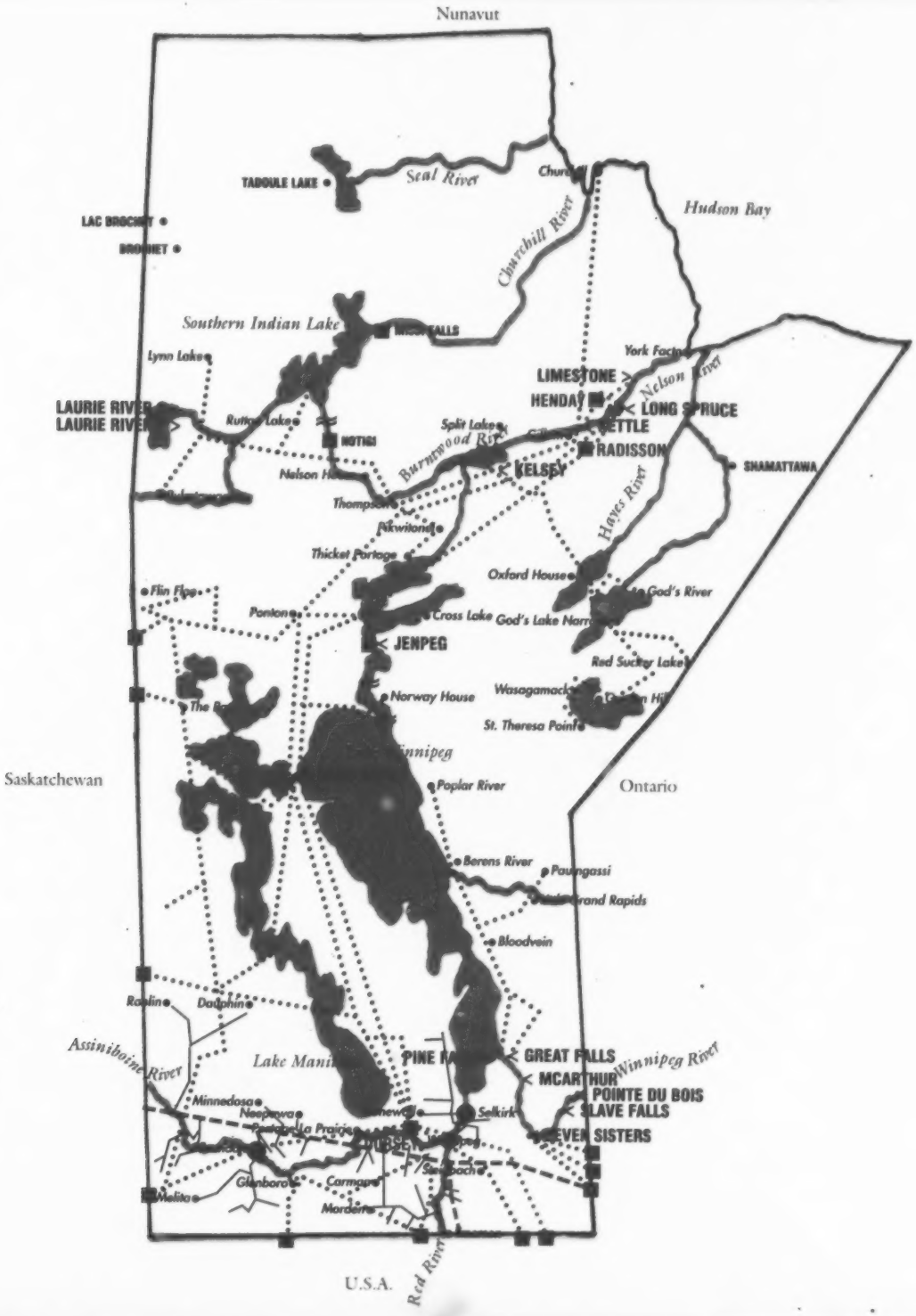
Major Electric and Gas Facilities Province of Manitoba as at March 31, 2006

- Route of High Voltage DC Transmission Lines
- Route of 500 000 Volt Transmission Lines
- Route of 230 000 Volt Transmission Lines
- Route of other Transmission Lines
- Gas Transmission and Distribution Lines
- TCPL - TransCanada Pipelines Ltd.
- Diversion Channels
- Points of Power Interchange
- Control Structures
- Converter Stations
- Hydro Generating Stations
- Thermal Generating Stations
- Communities Served by Diesel Generation



Major Electric and Gas Facilities Province of Manitoba as at March 31, 2006

- Route of High Voltage DC Transmission Lines
- Route of 500 000 Volt Transmission Lines
- Route of 230 000 Volt Transmission Lines
- Route of other Transmission Lines
- Gas Transmission and Distribution Lines
- TCPL - TransCanada Pipelines Ltd.
- Diversion Channels
- Points of Power Interchange
- Control Structures
- Converter Stations
- Hydro Generating Stations
- Thermal Generating Stations
- Communities Served by Diesel Generation



Source of Electrical Energy Generated and Imported For the year ended March 31

Nelson River	**79.04%**
Billion kWh generated	**29.7**
Limestone	26.93%
Kettle	25.03%
Long Spruce	20.67%
Kelsey	4.33%
Jenpeg	2.08%
Winnipeg River	**11.90%**
Billion kWh generated	**4.5**
Seven Sisters	3.35%
Great Falls	2.77%
Pine Falls	1.82%
Pointe du Bois	1.44%
Slave Falls	1.33%
McArthur	1.19%
Saskatchewan River	**7.77%**
Billion kWh generated	**2.9**
Grand Rapids	7.77%
Laurie River	**0.22%**
Laurie River #1	0.10%
Laurie River #2	0.12%
Thermal	**1.07%**
Billion kWh generated	**0.4**
Brandon	1.06%
Selkirk	0.01%

Generating Stations and Capabilities For the year ended March 31

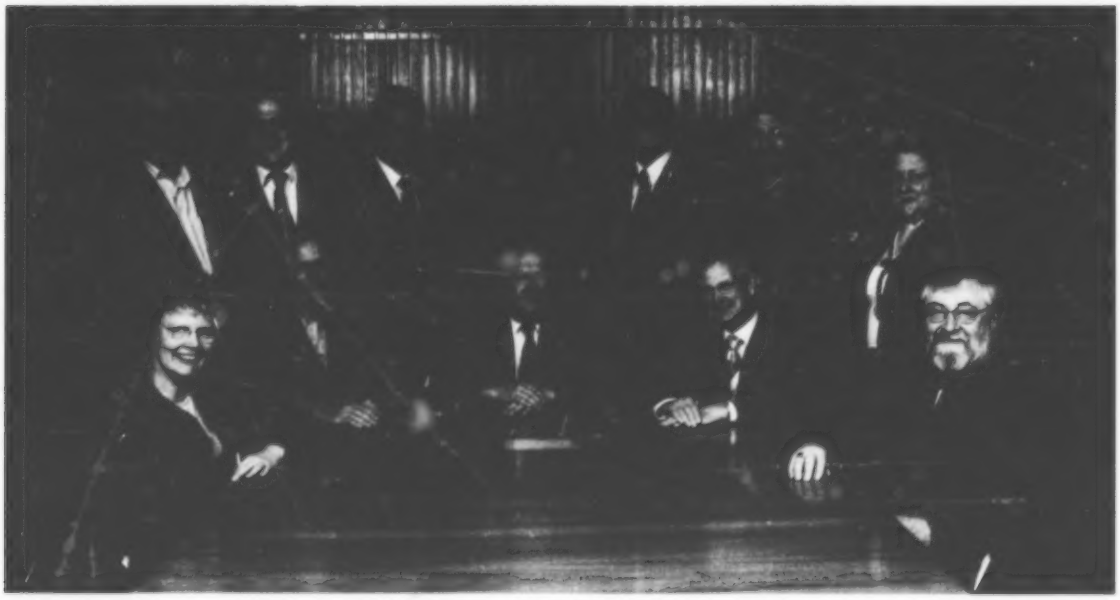
Interconnected Capabilities

Station	Location	No. of units	Net capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	132
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	88
McArthur	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	77
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	225
Kettle	Nelson River	12	1 220
Jenpeg	Nelson River	6	133
Long Spruce	Nelson River	10	1 010
Limestone	Nelson River	10	1 340
Laurie River (2)	Laurie River	3	10
Thermal			
Brandon		3	343
Selkirk		2	125

Isolated Capabilities

Diesel	
Brochet	3
Lac Brochet	2
Shamattawa	3
Tadoule Lake	1
Total Generating Capability	**5 478**

Manitoba Hydro-Electric Board



Seated: Leslie Turnbull, David Friesen, Victor Schroeder, Garry Leach, Gerard Jennissen.
Standing: Phil Dorion, Phillip Jessup, Ken Hildahl, Ken Paupanekis, Michael Spence, Carol Bellringer.

CAROL BELLRINGER, CA, MBA
President
Bellringer Holdings Inc.
Headingley, Manitoba

PHIL DORION
Executive Director
Aseneskak
Opaskwayak, Manitoba

DAVID FRIESEN
Chair and CEO
Friesens Corporation
Altona, Manitoba

KEN HILDAHL
Vice President
Sales and Marketing
Manitoba Blue Cross
Winnipeg, Manitoba

GERARD JENNISSEN
Member of the Legislative Assembly for Flin Flon
Province of Manitoba

PHILLIP JESSUP
Executive Director
The Toronto Atmospheric Fund
Toronto, Ontario

GARRY LEACH
Chair and CEO
Belcher Island Smelting and Refining Corporation
Winnipeg, Manitoba

KEN PAUPANEKIS
Norway House, Manitoba

VICTOR H. SCHROEDER, QC
Associate
Levene Tadman Gutkin Golub LLP
Barristers and Solicitors
Winnipeg, Manitoba

MICHAEL SPENCE
Mayor of Churchill and
Member of the York Factory First Nation

LESLIE TURNBULL
Partner
Viewpoints Research Ltd.
Winnipeg, Manitoba

Manitoba Hydro Senior Officers

Al Snyder, Gerry Rose, Ruth Kristjanson, Robert Brennan, Vince Warden, Ken Tennenhouse, Ken Adams.

KEN R.F. ADAMS, P. Eng
Vice-President
Power Supply

ROBERT B. BRENNAN, FCA
President and Chief Executive Officer

E. RUTH KRISTJANSON, BA (Hons), MA
Vice-President
Corporate Relations

GERRY W. ROSE, B.Comm (Hons), MBA
Vice-President
Customer Service & Marketing

AL M. SNYDER, P.Eng, MBA
Vice-President
Transmission & Distribution

KEN M. TENNENHOUSE, LL.B
General Counsel and
Corporate Secretary

VINCE A. WARDEN, CMA, FCMA
Vice-President
Finance & Administration and
Chief Financial Officer

Glossary

UTILITY TERMS

Demand:
The size of any load, expressed in kilowatts (kW), averaged over a specified period of time.

Distribution system:
The wood poles, conductors, and transformers that deliver electricity to customers. The distribution system transforms high voltages to lower, more usable levels. Electricity is distributed at 120/240 volts (V) for most residential customers and 120 to 600 V for the majority of industrial and commercial customers.

Energy:
The ability to do work. Electrical utilities sell electrical energy to their customers who, in turn, convert this energy into a desirable form - such as work, heat, light, or sound. Electrical energy is measured in kilowatt hours (kWh).

Generator:
A machine that converts mechanical energy - such as a rotating turbine driven by water, steam, or wind - into electrical energy.

Natural gas:
A fossil fuel made from hydrocarbons stored millions of years ago when plants and other materials were buried in the earth's crust. Composed mostly of methane - a colourless and non-toxic substance - natural gas creates virtually no unburned particles or smoke to pollute the atmosphere. The products of combustion are chiefly carbon dioxide and water - the same products exhaled by the human body.

NCN:
The Nisichawayasihk Cree Nation from northern Manitoba, one of the five native communities identified in the Northern Flood Agreement.

PDA:
Project Development Agreement between the Nisichawayasihk Cree Nation and Manitoba Hydro for the Wuskwatim Generating Station and Transmission Line Project.

PUB:
The Public Utilities Board. The provincial government's regulatory body through which all of Manitoba Hydro's electricity and natural gas rate applications must be approved before rate increases or decreases can become corporate policy.

Peak load:
Record of maximum amount of electricity for the fiscal year measured at a specific moment in time.

Power grid:
A number of interconnecting electrical power systems linking together electrical utilities and covering a large geographical area.

Transmission system:
The towers and conductors that transport electricity in bulk form from a source of supply to local areas for distribution or to the power systems of out-of-province electrical utilities. Electricity is usually transported via transmission lines in amounts ranging from 66 kV to 500 kV.

Glossary

ACCOUNTING TERMS

Blended Forward Interest Rate Swap:
An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term. The fixed interest rate is a bond yield calculation based on the fixed interest rate of the existing debt or investment and the fixed interest rate of the forward interest rate swap.

Exposure Management Program:
U.S. dollar hedging program used by the Corporation to offset U.S. dollar cash flows from debt, investments, and net exports to eliminate the impact of fluctuations in the U.S. dollar exchange rate.

Financial instrument:
Bonds, provincial advances, short-term promissory notes, temporary and long-term investments, and swap option and foreign exchange contracts.

Foreign exchange contract:
An agreement to exchange a predetermined amount of currency on a specified future date at a specified price.

Forward Interest Rate Swap:
An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term, beginning at a future date.

Retained earnings:
Net accumulated earnings that a business has not distributed to shareholders.

Sinking fund:
A fund of cash and securities set up to provide for the orderly retirement of a debt.

Swap:
An agreement between two parties to exchange cash flows at predetermined rates on specified notional amounts at specified future dates.

Yield:
The average return of a debt or investment using a bond yield convention which recognizes the future interest payments, capital gains or losses, commissions, discounts, and premiums.

Weighted Average Yield Rate:
The average return of debt or investment using the bond yield convention, weighted by the remaining term to maturity.

UNITS OF MEASURE

BTU:
British Thermal Unit. The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit, equaling roughly 1 000 joules.

Gigajoule:
A measure of energy for natural gas equaling one billion joules. One gigajoule of energy is equivalent to that provided by approximately 278 kWh of electricity or 30 litres of gasoline.

Gigawatt (GW):
The unit of electrical power equivalent to one billion watts or one million kW.

Joule:
A measure of energy for natural gas.

Kilovolt (kV):
The unit of electrical pressure, or force, equivalent to 1 000 volts (V).

Kilowatt hour (kWh):
The basic unit of electrical energy by which electricity is measured. For example, 10-100 W light bulbs switched on for one hour equals one kilowatt hour (1 000 W for one hour).

Megawatt (MW):
The unit of electrical power equivalent to one million watts, or 1 000 kilowatts (kW).

Manitoba
Hydro